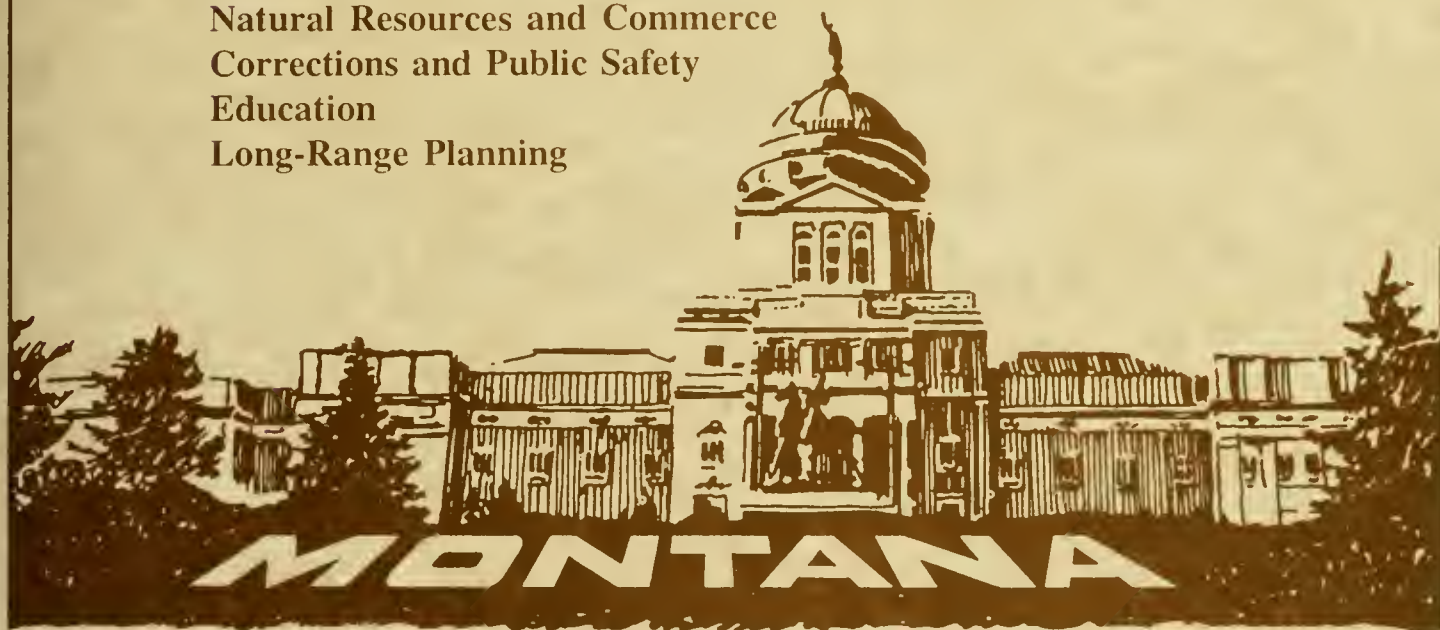


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LEGISLATIVE BUDGET ANALYSIS 2005 BIENNIUM

Volume 4 - Agency Budgets

Natural Resources and Commerce
Corrections and Public Safety
Education
Long-Range Planning



January 2003

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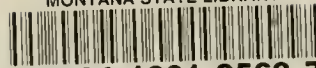
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LEGISLATIVE BUDGET ANALYSIS

2005 Biennium

Volume 4

Presented to the Fifty-eighth Legislature

Submitted by
The Legislative Fiscal Division

Helena, Montana

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AGENCY BUDGET ANALYSIS - INTRODUCTION

Agency Subcommittee Groupings
Agency Budget Analysis (Road Map)
Agency Budget Highlights



AGENCY SUBCOMMITTEE GROUPINGS

The following sections (A through F) provide a detailed explanation and analysis of the Executive Budget for each agency and agency program that contains appropriations in HB 2. The agencies are grouped by functional categories that mirror agency groups by appropriations subcommittee. The groups are summarized below. Programs funded with proprietary funds are not funded in HB 2, but explanation and analysis of these programs are included in each agency narrative for the purpose of legislative rate setting.

GENERAL GOVERNMENT AND TRANSPORTATION (Section A)

- Legislative Branch
- Consumer Counsel
- Judiciary
- Montana Chiropractic Legal Panel
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor
- Transportation
- Revenue
- Administration
- Appellate Defender Commission

HEALTH AND HUMAN SERVICES (Section B)

- Public Health and Human Services

NATURAL RESOURCES AND COMMERCE (Section C)

- Fish, Wildlife, and Parks
- Environmental Quality
- Livestock
- Natural Resources and Conservation
- Agriculture
- Commerce

CORRECTIONS AND PUBLIC SAFETY (Section D)

- Crime Control Division
- Justice

CORRECTIONS AND PUBLIC SAFETY (continued)

- Public Service Regulation
- Corrections
- Labor and Industry
- Military Affairs

EDUCATION (Section E)

- Office of Public Instruction
- Board of Public Education
- School for the Deaf and Blind
- Commissioner of Higher Education
- Community Colleges
- University Units and College of Technology
- Agricultural Experiment Station
- Extension Service
- Forestry and Conservation Experiment Station
- Bureau of Mines & Geology
- Montana Arts Council
- State Library Commission
- Fire Services Training School
- Montana Historical Society

LONG-RANGE PLANNING (Section F)

- Long-Range Building Program
- Treasure State Endowment Program
- State Building Energy Conservation
- Resource Indemnity Trust Interest Account
- Cultural and Aesthetic Grant Program
- Libby Bond Program

AGENCY BUDGET ANALYSIS (ROAD MAP)

The purpose of the “Agency Budget Analysis” is to provide a resource for legislators and members of the public to understand and allow for action on state agency budgets. It is designed to be a working document for use by the joint appropriations subcommittees. It does this by:

- Detailing components of the Executive Budget
- Raising budget and other issues for legislative consideration

This section provides a roadmap for using the Agency Budget Analysis volumes by discussing each component.

BUDGET TIERS

The section is constructed based on the statutory requirement that the budget be presented in three tiers:

1. Base budget.
2. Present law budget.
3. New proposals.

(For a further explanation of these tiers and how they are derived, see page 1 of the “Reference” section in Volume 1, or the publication entitled “Understanding State Finances and the Budgeting Process”, available through the Legislative Fiscal Division.) The analysis is presented in such a way as to allow the legislature to see and act on each present law adjustment and new proposal made to the base budget to derive the Executive Budget, by summarizing and raising issues with those adjustments.

LEGISLATIVE FISCAL DIVISION (LFD) ISSUES AND COMMENTS

While LFD staff has written the entire analysis document, parts are meant strictly to explain what is in the Executive Budget in a way that does not justify or advocate the executive position.

The heart of the analysis is in two areas:

1. The LFD issues and comments provided on the proposed budget. If the LFD analyst has raised an issue with anything contained in the Executive Budget or with any other aspect of agency operations and expenditures, they are included as an “LFD Issue”. The analyst may also provide additional information to aid the legislature in its decision making under the heading “LFD Comment”. All issues and comments are clearly identified in the narrative.
2. Other issues and options. In order to provide the legislature with alternatives to the Executive Budget, as well as budget-making flexibility, LFD staff has provided other issues and options for consideration by the legislature.

COMPONENTS OF THE AGENCY BUDGET ANALYSIS

For all multiple program agencies, the narrative is divided into two parts:

- 1) the agency narrative
- 2) the program narrative

Agency Narrative

The agency narrative provides an overview of the Executive Budget and other issues and options for that agency. Since the legislature appropriates at the program level, only issues raised in the analysis with an agency-wide or multiple-program impact are discussed at this level. All other discussion occurs within the relevant program narratives.

Each agency narrative has the following components.

1. The **Main Table** shows the Executive Budget request by year, including separate columns showing present law adjustments and new proposals. The reader can use this table to not only get a general idea of the size and funding of the agency, but also view any changes proposed by the Governor.
2. **Agency Description** is a brief description of the agency.
3. If included by the executive, a discussion of the following three types of proposals is included, each with LFD comments as appropriate:
 - **Supplemental Appropriations** discusses supplemental appropriations recommended by the Governor for fiscal 2003, or supplemental appropriations approved in fiscal 2002
 - **Reorganization** details any major reorganization that took place in the 2003 biennium or is proposed by the executive for the 2005 biennium
 - **Language Recommendations** includes any agency-wide language proposed by the executive
4. **Agency Discussion** includes tables showing highlights of proposed budget and major LFD issues, and any related discussion. It is designed to aid the reader in gaining an understanding of the agency overall budget or significant budget areas.
5. **Funding** is a table and related discussion that shows the total biennium funding, by program and fund type, proposed by the Governor.
6. **Biennium Comparison Table** compares adjusted actual fiscal 2002 expenditures and appropriations for fiscal 2003 (the 2003 biennium base) to the 2005 biennium Executive Budget so the reader can get a general sense of the change between biennia.
7. **Agency Issues** is a discussion by the LFD analyst of any identified agency-wide or multi-program issues. Otherwise, all discussions of adjustments and attendant issues are included in the relevant program narratives.
8. **Proposed Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the agency. This section is designed to alert the legislature to other legislation not included in HB 2 that could have a bearing on the agency budget and operation.
9. **New Proposals Summary Table** summarizes all new proposals proposed by the executive for the agency. An explanation of and comments on each of the new proposals is included in the relevant program narratives.
10. **Elected Officials New Proposals** lists new proposals advocated by agencies headed by either an elected official or the Board of Regents but not included in the Executive Budget.

Note: The main and biennial comparison tables, the agency description, and the agency discussion and funding tables are included in each agency narrative. However, the other components are “optional”, indicating they are included only if circumstances warrant.

Program Narrative

Narratives detailing each agency program follow the agency narrative. The program narrative contains the following components.

1. The **Main Table** contains the same information as the agency main table for each program of the department, including the adjusted fiscal 2002 base used to derive the budget, the total present law adjustments, new proposals, and the total Executive Budget, by fiscal year.
2. **Program Description** is a short description of the program and its functions.
3. **Reorganization** details any program reorganizations that took place in the 2003 biennium or that are proposed by the executive for the 2005 biennium.
4. **Program Discussion** details any points of overall program discussion by the LFD analyst. This section contains a table highlighting major budget factors and LFD issues.
5. **Funding** details program funding as proposed by the executive, and any issues raised by the LFD analyst.
6. The **Executive Present Law Table** delineates the major present law adjustments included by the executive, by fiscal year and funding source. The table is divided into two sections:
 - statewide present law adjustments, which include most personal services adjustments, the executive’s vacancy savings recommendation, and adjustments due to fixed costs and inflation
 - other present law adjustments proposed by the executive
7. **Executive Present Law Adjustments** discusses each adjustment proposed by the executive in more detail. The adjustment descriptions are written by the LFD analyst based upon justifications submitted by the executive. It should be noted that it is the responsibility of the LFD analyst to explain a requested change, but not to advocate for or attempt to justify that request. If the LFD analyst has raised an issue with the adjustment, it is presented when the adjustment is discussed.
8. The **New Proposals Table** shows each new proposal requested by the executive, by fiscal year and funding source.
9. **New Proposals** discusses each new proposal in more detail. If the LFD analyst has raised an issue with the proposal it is presented with that new proposal. As with present law adjustments, the LFD has written these explanations based upon submissions by the executive.
10. **Language Recommendations** recreates any program specific language proposed by the executive, with LFD comments as appropriate.
11. **Other Issues** contains any issues identified by the LFD analyst unrelated to a specific present law adjustment or new proposal.

The legislature does not appropriate enterprise funds (which fund operations that provide goods or services to the public on a user charge basis) or internal services funds (which fund operations that provide goods and services to other entities of state government on a cost-reimbursement basis). However, the executive must review enterprise funds and the legislature approves all internal service rates. If the program includes a function supported by either an enterprise fund or an internal service fund, a separate section within the relevant program provides the following.

1. A **Fund Balance Table** shows actual and projected rates, revenues, expenditures, and fund balance through fiscal 2005.
2. **Narrative** contains a discussion of the function, a description and explanation of the rate requested, and a discussion of any significant present law adjustments or new proposals impacting the requested rate. The LFD analyst addresses any issues and comments as appropriate.

STATEWIDE PRESENT LAW ADJUSTMENTS

“Statewide Present Law Adjustments” are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the “statewide” section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. The Legislative Finance Committee (LFC) will make a recommendation on these and other adjustments to appropriations leadership.

Personal Services

Personal services costs are derived by taking a “snapshot” of state employee positions and the factors determining compensation rates at a particular point in time. A number of underlying factors will make the 2005 biennium personal services costs different from actual fiscal 2002 costs. The most important are:

2003 Biennium Pay Plan and Other Benefits

The 2001 legislature adopted a pay plan that, among other features, provided two increases.

1. An overall increase in pay averaging about 4 percent each year.
2. An increase in insurance rates in each year of the biennium.

Since the pay plan was increased in fiscal 2003 and not fully implemented in the base year, adjustments were made to each employee’s compensation to reflect actual agency costs in the 2005 biennium. In addition, any changes made to benefits that an agency must pay directly to or in support of an employee, such as pension, or unemployment and workers’ compensation insurance, are automatically reflected in the present law personal services.

Vacancy Savings

Vacancy savings is a reduction in personal services costs that results when positions are not filled for the entire year. Vacancy savings will fluctuate within agencies and programs from year to year. In order to provide the legislature with the opportunity to make all policy decisions regarding vacancy savings, each position is funded as if the position were filled for the entire year, regardless of any vacancy savings that may have occurred in fiscal 2002.

Termination Pay

Costs incurred by agencies due to termination of employment, such as accrued sick or annual leave, are not included in present law.

Classification Upgrades/Downgrades

All upgrades and downgrades of individuals or classes of positions authorized during the biennium through the “snapshot” date (June of fiscal 2002) are included in present law.

Any adjustments to personal services from sources within the control of the executive, such as overtime, new or deleted positions, or proposed transfers, should not be included in the statewide adjustments. If the LFD analyst has identified any of the adjustments in the statewide adjustment line, they are discussed as an LFD issue.

Vacancy Savings

The executive has proposed a 4 percent vacancy savings rate on all salaries and benefits, including insurance, for most positions. Exempted positions include university system faculty and those in agencies with fewer than 20 full-time equivalent positions.

Inflation/Deflation

The Executive Budget has inflated or deflated certain operating expenses. Each agency budget is automatically adjusted to add inflation to or subtract deflation from the relevant expenditure items. Therefore, changes to inflation/deflation amounts in the agencies can only be made through an adjustment to the actual expenditure against which the inflation/deflation is applied, rather than to the inflation/deflation factor, itself.

Note: A complete listing of expenditure categories inflated or deflated in the Executive Budget has been included in the "Reference" section.

Fixed Costs

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as data network fees, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate. Any changes to these allocations must be made through a change to the service agency budget, or to the allocation method used by the service agency. The General Government and Natural Resources Subcommittees will review the fixed costs proposals.

Note: A complete listing of all fixed costs is included in the "Reference" section of Volume 1.

AGENCY BUDGET HIGHLIGHTS

The following summarizes the main budget highlights of the 2005 biennium Executive Budget. Please note that the following discussion pertains to HB 2 expenditures only. HB 2 appropriates over 80 percent of all general fund. However, reimbursements to local governments under HB 124 passed by the 2001 legislature are statutorily appropriated and are therefore not part of the following discussion.

PRIMARY BUDGET FACTORS

The 2005 biennium Executive Budget is defined by a series of additions and reductions in varying sizes and impacts among all agencies. The following summarizes the primary factors:

- 10.02 FTE in fiscal 2004 and 56.84 FTE in fiscal 2005 would be added. This total is the net after reductions in a number of agencies totaling 156.87 FTE in fiscal 2004 and 213.00 FTE in fiscal 2005.
- General fund would increase by only \$5.6 million, or less than 1 percent, from the 2003 biennium. However, this figure is misleading in that it includes the impacts of a funding switch that re-classified interest and income revenues supporting K-12 education as state special revenue that had been funded from the general fund in fiscal 2002. If this factor is removed, general fund increases by \$54.5 million.
 - The increase is dominated by funding for costs of state assumption of district courts and by population increases in corrections
- Present law changes are dominated by three factors:
 - Increases for statewide present law adjustments, including full funding of personal services (minus vacancy savings), fixed costs, and inflation
 - Caseload and enrollment changes
 - Reductions to continue the Governor's 17-7-140 spending reductions (although maintenance of precise actions taken in fiscal 2003 cannot be assumed)
- General fund new proposals are dominated by reductions to meet general fund targets within individual agencies. New proposal increases add a total of \$22.2 million general fund, but are dwarfed by reductions of \$86.9 million.
 - General fund new proposals are distinguished by a lack of a clear executive policy initiative. Major increases are to replace funding and address caseload increases in foster care, for developmental disabilities services (in part due to a reduction in federal funding), to discontinue POINTS II (although the total funding request would increase), and \$6.0 million for schools.
- Total new proposals decrease by \$0.7 million in fiscal 2004 and \$4.8 million in fiscal 2005. The smaller decrease primarily reflects additional state (most notably highway state special revenue bonding proceeds) and federal funds available.
- Few functions of state government are eliminated or significantly reduced, and these are primarily concentrated in human services programs. In most cases, the executive has identified a general fund reduction goal, but is nebulous about what precise measures will be taken to achieve this level of expenditure and the potential impact on services. LFD staff has attempted to ascertain anticipated impacts on services in the narratives that follow.

COMPARISON OF PROGRAM AREAS

Because the change in classification of interest and income funds supporting schools does not represent a reduction in funding available, the following comparisons address this factor by adjusting actual fiscal 2002 expenditures for this change to more accurately reflect actual changes. The following figure shows a comparison of biennia without factoring the interest and income revenues.

General Fund Increases by Major Component 2005 Biennium (in Millions)				
Component	Executive Budget	Increase Over 2003	Percent Increase	Percent of Increase
K-12 Education*	\$ 1,023.02	\$ (53.18)	-4.9%	-948.5%
Higher Education	273.38	0.38	0.1%	6.7%
Human Services	531.20	5.68	1.1%	101.3%
Corrections	209.86	14.65	7.5%	261.4%
All Other Government Agencies	278.68	38.08	15.8%	679.2%
Total	\$ 2,316.14	\$ 5.61	0.2%	

*Does not factor out the impact of change in classification of interest and income revenues.

The following compares major budget components by biennia by factoring out the interest and income revenues. These figures will be used in the following discussion.

General Fund Increases by Major Component 2005 Biennium (in Millions)				
Component	Executive Budget	Increase Over 2003	Percent Increase	Percent of Increase
K-12 Education*	\$ 1,023.02	\$ (4.24)	-0.4%	-7.8%
Higher Education	273.38	0.38	0.1%	0.7%
Human Services	531.20	5.68	1.1%	10.4%
Corrections	209.86	14.65	7.5%	26.9%
All Other Government Agencies	278.68	38.08	15.8%	69.8%
Total	\$ 2,316.14	\$ 54.54	2.4%	

*The 2003 figure used to compare to the 2005 biennium is adjusted for the change in classification of school trust interest and income to reflect the true change. Fiscal 2002 expenditures were adjusted by \$48.94 million. Actual general fund expenditures in fiscal 2002 were \$560.55 million, which would have resulted in a biennial reduction of \$53.18 million.

The main program areas show the following.

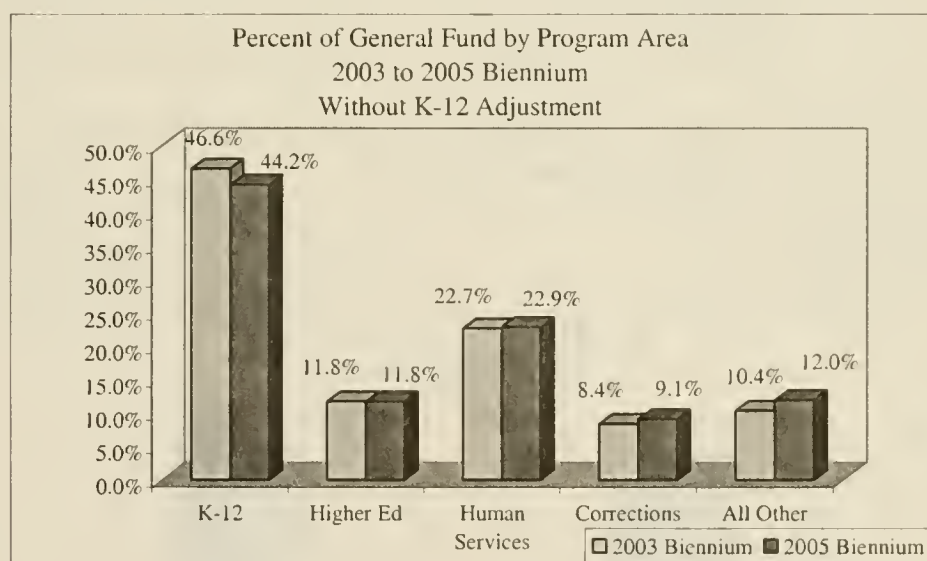
- While K-12 education shows a slight decrease, the executive is proposing a number of policy initiatives that would shift funding and tax burdens. In addition, the executive has proposed additional funding for K-12, as reductions in average number belonging (ANB) would reduce the 2005 biennium budget compared to the 2003 biennium level.
- Higher education is essentially held constant to the 2003 biennium level. This level in turn was significantly reduced in fiscal 2003 from the appropriation made by the 2001 legislature through budget reduction measures by the Governor under 17-7-140, and the legislature in special session.
- The Department of Corrections increase is primarily due to increased populations

- The 1.1 percent increase for the Department of Public Health and Human Services is the lowest increase in percentage and dollars in a number of biennia. Due to caseload increases, primarily in Medicaid, the overall increase reflects a number of service reductions, particularly in other Medicaid services and mental health services.

As shown, the primary areas of increase are “all other state government”. This increase is dominated by three factors:

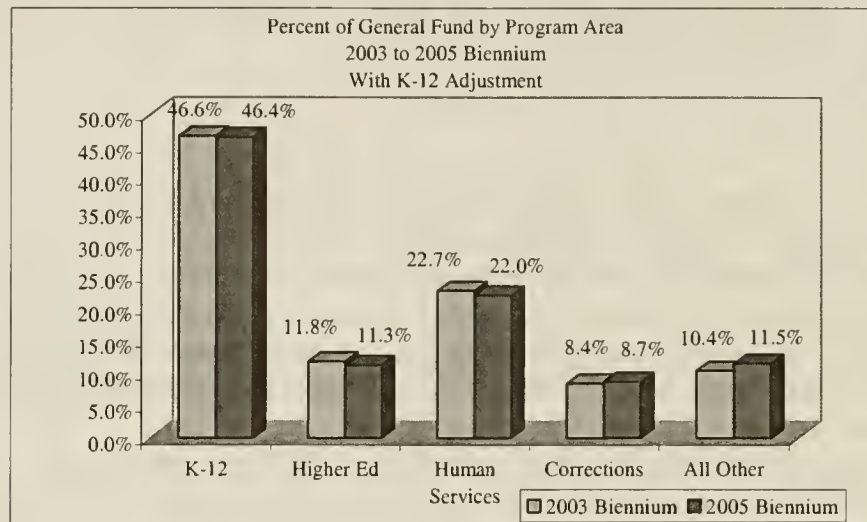
- Assumption by the State of the District Courts - Fiscal 2002 does not include any costs (except about \$200,000 of administration) to assume the district courts. Fiscal 2003 includes about \$18.3 million. The increase in the 2005 biennium is \$18.9 million.
- Motor Vehicle Division Funding – The legislature replaced general fund in the Motor Vehicle Division in the Department of Justice with highways state special revenue in fiscal 2003. The executive is proposing to return funding to the general fund, adding \$6.6 million over the 2003 biennium level.
- Department of Natural Resource and Conservation – This agency increases about \$7.6 million overall, primarily due to a reduction in the fiscal 2003 appropriation as a result of special session reductions and the transfer of \$3.3 million to fiscal 2002 to pay fire costs. Increased payments to the Crow Tribe add another \$1.0 million.

The following figure shows the allocation of general fund by program area for the 2005 biennium compared to the 2003 biennium.



All other government shows a large increase due to the factors discussed above, while K-12 education shows a reduction. However, these figures are again misleading in that a significant amount of funds that support K-12 education are not included – the reclassified interest and income revenues.

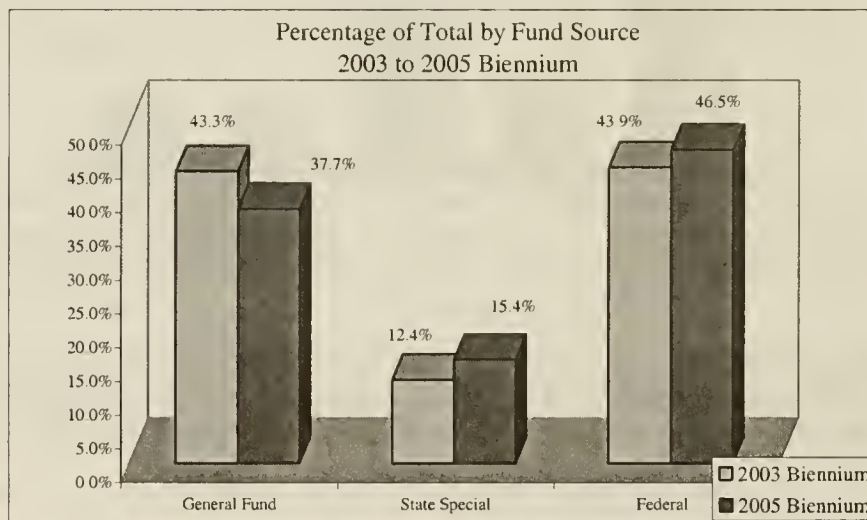
If these revenues were included, the comparison would show the following.



SOURCE OF FUNDING

The following figure illustrates that, in keeping with a trend for a number of years, federal funds continue to represent a greater share of state funding while the general fund, while growing, assumes a smaller share. Please note three things when examining the table:

- The reduction in general fund is partially due to the reclassification of interest and income revenues for schools
- \$111.5 million of the increase in federal funds is due to an accounting change that necessitates direct appropriation of federal food stamp benefits
- State special revenue is overstated due to bond proceeds for work on highway 93 that add about \$87.6 million



NATURAL RESOURCES AND COMMERCE

Section C

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE COMMITTEES

-----Agencies-----

Fish, Wildlife & Parks
Environmental Quality
Livestock

Natural Resources and Conservation
Agriculture
Commerce

-----Committee Members-----

House

Representative Jeff Pattison (Chair)
Representative John Musgrove
Representative Rick Ripley

Senate

Senator Bill Tash (Vice-Chair)
Senator Ed Butcher
Senator Debbie Shea

-----Fiscal Division Staff-----

Gary Hamel
Todd Younkin

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	581.18	4.75	12.67	598.60	4.75	13.67	599.60	599.60
Personal Services	24,614,203	2,231,104	1,244,459	28,089,766	2,253,202	483,004	27,350,409	55,440,175
Operating Expenses	19,451,450	3,074,396	2,388,968	24,914,814	3,144,640	1,122,362	23,718,452	48,633,266
Equipment	689,472	146,391	22,515	858,378	(196,529)	76,015	568,958	1,427,336
Capital Outlay	0	0	0	0	0	0	0	0
Grants	570,899	101,809	145,172	817,880	16,809	(14,828)	572,880	1,390,760
Benefits & Claims	5,057	0	0	5,057	0	0	5,057	10,114
Transfers	0	0	3,703,719	3,703,719	0	3,703,716	3,703,716	7,407,435
Total Costs	\$45,331,081	\$5,553,700	\$7,504,833	\$58,389,614	\$5,218,122	\$5,370,269	\$55,919,472	\$114,309,086
General Fund	281,816	(26,386)	0	255,430	(25,379)	0	256,437	511,867
State/Other Special	33,971,373	3,921,930	2,041,158	39,934,461	3,546,012	1,364,626	38,882,011	78,816,472
Federal Special	11,077,892	1,658,156	5,463,675	18,199,723	1,697,489	4,005,643	16,781,024	34,980,747
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$45,331,081	\$5,553,700	\$7,504,833	\$58,389,614	\$5,218,122	\$5,370,269	\$55,919,472	\$114,309,086

Agency Description

Fish, Wildlife and Parks (FWP) is responsible for the management of Montana fish, wildlife, parks, and recreational resources. The department is also responsible for a state park system that includes scenic, historical, cultural, and recreational resources. The operational programs are in seven divisions and seven regional field offices. The five-member FWP Commission provides policy direction on resource management, seasons, and use of department lands.

Executive Recommended Legislation

General Recreation use of State Lands - The Executive Budget includes a request for budget authority to enter into a 10 year memorandum of understanding (MOU) with the Department of Natural Resources and Conservation to compensate the school trust for the value of recreational use of school trust lands by hunters and anglers. The total is an amount equivalent to \$1.25 for every conservation license sold the prior year. This proposal is the result of a request by the Board of Land Commissioners that FWP and DNRC develop an alternative to the current method of compensating the School Trust for general recreational use through the purchase of a general recreational use stamp. A decision package that would fund this proposal is found in the Field Services Division section of this write-up.

Agency Discussion

Department of Fish, Wildlife and Parks	
Major Budget Highlights	
o	The largest funding source is the general license account. At 49.4 percent of the budget, it totals \$56.4 million over the biennium
o	Total funds increase \$20.3 million over the biennium
o	Total FTE increase by 18.42 to a total of 599.6 FTE
o	A fee is proposed to compensate school trust lands for impacts by hunters and anglers
Major LFD Issues	
o	The Executive Budget has proposed \$12.9 million in program expansions over the biennium to expand the number of FTE by 13.67
o	The executive is requesting \$7.4 million in legislative contract authority
o	General license account balance is projected to be \$15.0 million at the end of the 2005 biennium, limiting program expansions which could reduce likelihood of a fee increase in future biennia
o	The department is paying commissions to license agents that do not meet the statutory definition of a "transaction."

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
Administration & Finance Div.	\$ -	\$ 12,062,290	\$ 3,210,204	\$ 15,272,494	13.4%
Field Services Division	-	16,187,087	1,710,157	17,897,244	15.7%
Fisheries Division	-	7,748,866	14,527,652	22,276,518	19.5%
Enforcement Division	-	13,362,492	612,518	13,975,010	12.2%
Wildlife Division	-	8,635,293	8,900,197	17,535,490	15.3%
Parks Division	511,867	10,464,013	664,742	11,640,622	10.2%
Conservation Education Div	-	3,809,122	1,585,476	5,394,598	4.7%
Department Management	-	6,547,309	3,769,801	10,317,110	9.0%
Grand Total	\$ 511,867	\$ 78,816,472	\$ 34,980,747	\$ 114,309,086	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	585.93	12.67	598.60	585.93	13.67	599.60	581.18	599.60
Personal Services	26,845,307	1,244,459	28,089,766	26,867,405	483,004	27,350,409	50,567,056	55,440,175
Operating Expenses	22,525,846	2,388,968	24,914,814	22,596,090	1,122,362	23,718,452	41,120,276	48,633,266
Equipment	835,863	22,515	858,378	492,943	76,015	568,958	1,139,264	1,427,336
Capital Outlay	0	0	0	0	0	0	0	0
Grants	672,708	145,172	817,880	587,708	(14,828)	572,880	888,335	1,390,760
Benefits & Claims	5,057	0	5,057	5,057	0	5,057	11,698	10,114
Transfers	0	3,703,719	3,703,719	0	3,703,716	3,703,716	308,819	7,407,435
Total Costs	\$50,884,781	\$7,504,833	\$58,389,614	\$50,549,203	\$5,370,269	\$55,919,472	\$94,035,448	\$114,309,086
General Fund	255,430	0	255,430	256,437	0	256,437	559,307	511,867
State/Other Special	37,893,303	2,041,158	39,934,461	37,517,385	1,364,626	38,882,011	70,620,709	78,816,472
Federal Special	12,736,048	5,463,675	18,199,723	12,775,381	4,005,643	16,781,024	22,855,432	34,980,747
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$50,884,781	\$7,504,833	\$58,389,614	\$50,549,203	\$5,370,269	\$55,919,472	\$94,035,448	\$114,309,086

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 103 - Accounting Function Support Staff										
01	0.50	0	18,495	0	18,495	0.50	0	16,463	0	16,463
DP 106 - Legislative Contract Authority										
01	0.00	0	0	75,000	75,000	0.00	0	0	75,000	75,000
DP 206 - Legislative Contract Authority										
02	0.00	0	0	60,000	60,000	0.00	0	0	60,000	60,000
DP 209 - Lands Staff FTE										
02	0.50	0	21,740	0	21,740	0.50	0	20,196	0	20,196
DP 210 - Private Landowner Technical Services										
02	0.00	0	40,000	0	40,000	0.00	0	40,000	0	40,000
DP 211 - Collaborative Elk Management										
02	0.00	0	40,000	0	40,000	0.00	0	40,000	0	40,000
DP 301 - Fish Tech Support										
03	2.00	0	24,250	72,750	97,000	2.00	0	25,500	76,500	102,000
DP 302 - Fort Peck Hatchery Support										
03	1.00	0	100,000	0	100,000	1.00	0	200,000	0	200,000

New Proposals

Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	
DP 303 - Legislative Contract Authority										
03	0.00	0	0	2,701,319	2,701,319	0.00	0	0	2,701,322	2,701,322
DP 304 - Roving Creel Survey										
03	0.00	0	25,000	75,000	100,000	0.00	0	26,250	78,750	105,000
DP 305 - Restore OTO for FAS Assistance Program										
03	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 308 - WCRP-Prairie Riparian Study OTO										
03	0.00	0	19,967	59,901	79,868	0.00	0	0	0	0
DP 401 - Warden Trainee										
04	1.00	0	29,812	7,760	37,572	1.00	0	29,812	7,760	37,572
DP 402 - Boating Parks & Recreation Law Enf Program Manager										
04	1.00	0	45,000	15,000	60,000	1.00	0	45,000	15,000	60,000
DP 405 - FTO/Trainer Compensation										
04	0.00	0	7,500	0	7,500	0.00	0	7,500	0	7,500
DP 409 - Restore OTO for Commercial Licensing										
04	0.00	0	32,000	0	32,000	0.00	0	32,000	0	32,000
DP 413 - Legislative Contract Authority										
04	0.00	0	0	18,000	18,000	0.00	0	0	18,000	18,000
DP 416 - Snowmobile Enforcement										
04	0.00	0	5,217	0	5,217	0.00	0	5,217	0	5,217
DP 502 - Coal Bed Methane Coordinator										
05	1.00	0	13,005	39,016	52,021	1.00	0	13,004	39,011	52,015
DP 505 - Research Weather Relationships with Wildlife										
05	0.00	0	1,750	5,250	7,000	1.00	0	13,214	39,642	52,856
DP 507 - Restore OTO for Black Bear Research										
05	0.50	0	14,893	44,679	59,572	0.50	0	14,886	44,658	59,544
DP 510 - Bighorn Sheep Auction										
05	0.00	0	40,000	0	40,000	0.00	0	40,000	0	40,000
DP 517 - Legislative Contract Authority										
05	0.00	0	0	550,000	550,000	0.00	0	0	550,000	550,000
DP 604 - Legislative Contract Authority										
06	0.00	0	0	50,000	50,000	0.00	0	0	50,000	50,000
DP 609 - FAS Maintenance and Operations										
06	3.87	0	174,240	0	174,240	3.87	0	174,229	0	174,229
DP 801 - Legislative Contract Authority										
08	0.00	0	0	50,000	50,000	0.00	0	0	50,000	50,000
DP 804 - Restore OTO for Shooting Range Grants Enhancement										
08	0.00	0	43,193	0	43,193	0.00	0	(16,807)	0	(16,807)
DP 905 - Restore OTO for Office Maint and Small Equipment										
09	0.00	0	30,000	0	30,000	0.00	0	30,000	0	30,000
DP 906 - Legislative Contract Authority										
09	0.00	0	0	200,000	200,000	0.00	0	0	200,000	200,000
DP 908 - Restore OTO for River Recreation Coordinator										
09	1.00	0	72,169	0	72,169	1.00	0	72,053	0	72,053
DP 909 - Economic Study										
09	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000
DP 910 - Regional Office Support Staff										
09	0.30	0	6,127	0	6,127	0.30	0	6,109	0	6,109
DP 911 - State Wildlife Grant (SWG) Federal Program										
09	0.00	0	160,000	1,200,000	1,360,000	0.00	0	0	0	0
DP 913 - FWP Retirement Liability										
09	0.00	0	546,800	240,000	786,800	0.00	0	0	0	0
DP 8213 - General Recreation Use of State Lands (Requires Legislation)										
02	0.00	0	460,000	0	460,000	0.00	0	460,000	0	460,000
Total	12.67	\$0	\$2,041,158	\$5,463,675	\$7,504,833	13.67	\$0	\$1,364,626	\$4,005,643	\$5,370,269

Language Recommendations

The following HB 2 language is recommended by the executive:

- o "The appropriations for legislative contract authority in each program are subject to all of the following provisions:
 - o legislative contract authority applies only to federal funds.
 - o legislative contract authority expenditures must be reported on the state accounting system and the records must be separate from present law operations. In preparing the 2007 biennium budget for legislative consideration, the office of budget and program planning may not include the expenditures from this item in the present law base.
 - o a report must be submitted by the department to the legislative fiscal division following the end of each fiscal year of the biennium. The report must include a list of projects with the related amount of expenditures and FTE for each project."

- "The department is to report to the natural resources and commerce appropriations committee on the projects funded with federal Sikes Act money and state match money. The report is to include an analysis of the viability for continuance of the program and a list of projects funded with the money."
- "If the department receives additional federal special revenue for services comparable to those with general license revenue, the approving authority shall decrease the state special revenue appropriation by the amount of federal money received and establish the federal funds appropriation. All transfers between fund types must be fully explained and justified on budget documents submitted to the office of budget and program planning."

"If the department is required to adjust personal services expenditure costs between state and federal accounts, the approving authority shall adjust the state special revenue appropriation and the federal appropriation by like amounts. All transfers between fund types must be fully explained and justified on budget documents submitted to the office of budget and program planning."

Agency Issues

Program Expansions

The Executive Budget includes recommendations for significant program expansions through new proposals, which also include requests for FTE, in the 2005 biennium. Figure 1 shows this increase and compares it to new proposals since the 1991 biennium.

In examining each new proposal, the legislature may wish to consider its potential degree of impact on the largest funding source for the entire department. Many of the new proposals request additional spending authority from the general license account, which derives its revenue from that source. Therefore, a reduction in the number and size of the new proposals could mitigate the need for license fee increases in future biennia. For a further discussion of the fund balance in the general license account, please see the general license discussion later in this section.

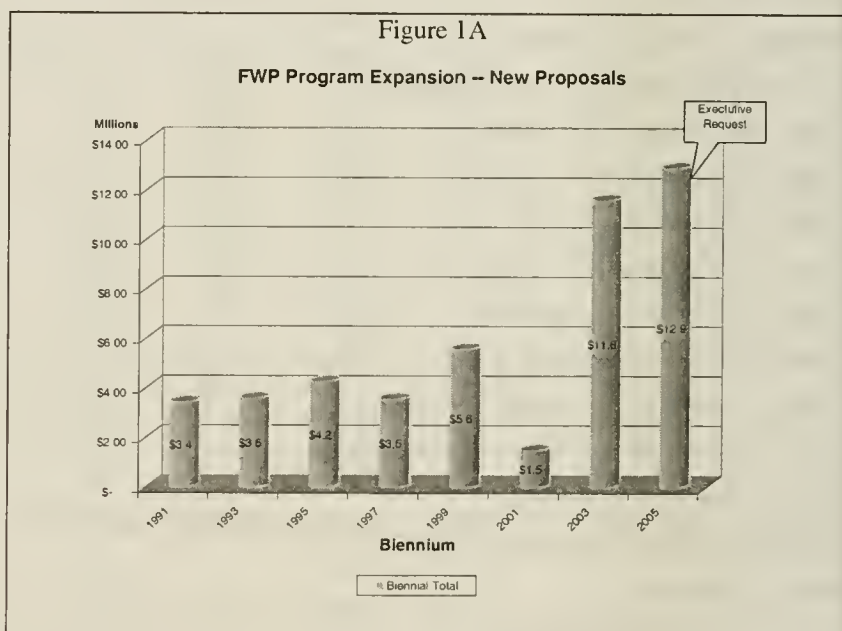


Figure 1B

Department of Fish, Wildlife & Parks

House Bill 2 Program Expansions

Biennia	Amount	FTE	Quantity
2005	\$12,875,102	13.67	36
2003	11,583,068	19.19	32
2001	1,489,334	0.5	6
1999	5,559,132	10.92	22
1997	3,548,177	-6.16	35
1995	4,239,704	31.7	23
1993	3,573,221	16.59	23
1991	\$ 3,415,028	24.97	27

Legislative Contract Authority

Legislative contract authority (LCA) provides a means by which the legislature can appropriate the additional federal funds that the department anticipates receiving after the legislature adjourns. LCA expenditures are treated like budget amendment expenditures, in that they are removed from the base and must be re-appropriated each biennium. However, unlike a budget amendment, the legislature does not have the opportunity to review LCA expenditures on an on-going basis. The agency receives federal funding and spends it. The legislature becomes involved during the subsequent legislative session when they receive a report from the agency showing LCA expenditures.

The more typical post-session process to spend emergent federal money is through a budget amendment. Budget amendments are generally reserved for money the legislature could not reasonably have expected during the legislative session. Through the budget amendment process, the legislature has the opportunity to review the amount and purpose of funding received after the legislative session. Thus, the legislature, on an ongoing basis, is kept apprised of fiscal activity.

In contrast, LCA allows the agency to spend federal funding without routine notification. In addition, the agency must request funding in HB 2 for ongoing budget amendments, if the agency is to avoid requesting a budget amendment again in the next biennium.

From fiscal 1982, when this mechanism was first established, through the 2005 biennium, the department has received \$48.0 million of LCA. Biennial LCA appropriations reached their highest level in the 1995 biennium, but were reduced to \$3.4 million in the 1999 biennium. The executive is requesting \$7.4 million in LCA authority for the 2005 biennium.

Figure 2



There are three main legislative issues relative to legislative contract authority.

- The legislature does not have control over how the money is spent. After the department is given federal authority in the legislative session, the legislature is removed from the process. They are not notified of specific projects until the next legislative session
- The legislature does not have the ability to review individual projects. In most cases, the projects have already taken place by the time the legislature gets a status report
- Some projects have been ongoing for many years. If LCA projects have been ongoing for a number of years (the legislature could determine this criteria), they should be funded in HB 2 through the legislative appropriations process and be subject to the same scrutiny as other ongoing projects. Thus, if the legislature wants the opportunity to review on-going projects and weigh their merits against other ongoing projects, the legislature may want to consider including the authority in the agency HB 2 budget, not as LCA

Figure 3

**Department of Fish, Wildlife and Parks
Legislative Contract Authority, 2005 Biennium
Executive Budget**

Program	Fiscal 2004	Fiscal 2005
	Federal	Federal
Administration & Finance	\$ 75,000	\$ 75,000
Field Services	60,000	60,000
Fisheries	2,701,319	2,701,322
Law Enforcement	18,000	18,000
Wildlife	550,000	550,000
Parks	50,000	50,000
Conservation Education	50,000	50,000
Department Management	200,000	200,000
Total	<u>\$ 3,704,319</u>	<u>\$ 3,704,322</u>

Options

- Require the department to include project duration information in their annual report
- Require that all projects that remain ongoing over a specified period of time be budgeted in HB 2
- Require that the department provide quarterly updates on the status and amounts spent with LCA
- Eliminate LCA.

General License Account

The general license account is the single largest funding source in the department. In fiscal 2002, the general license account supplied 47.1 percent of department total funding and 70.5 percent of department state special revenue funding. The license fees that provide revenue to the account are set by the legislature.

Figure 4 provides details of the fund balance for the 2003 and 2005 biennia. Fiscal years 2002 to 2005 reflect the amount of money that is expected to be available for legislative appropriation after requested new proposals and present law adjustments are taken into account. The large decrease in fiscal 2003 is caused by the removal of \$5.8 million in unspent capital project and carry-forward appropriations. Even though the department will not spend the entire \$5.8 million in fiscal 2003, the money is not available for the 2003 legislature to appropriate.

Likewise, the full amount of the \$2.5 million capital request from this account is shown in fiscal 2004, even though expenditures will occur in later years. The actual fund balance at a given point in time will be higher. However, the legislature would not be able to appropriate the full amount of the balance because a portion has already been committed to capital projects.

If all capital projects were completed in the next biennium and if all new proposals and present law adjustments were accepted by the 2003 legislature, the balance in the general license account would be nearly \$15.0 million. Even when expending

more than is being brought in from revenue, the department could go for at least three biennia before the balance would approach the \$5.7 million the department considers a critical point at which a fee increase would have to be implemented. If the legislature decides to limit funding for department expansion, the current fund balance could last even longer.

If the legislature wants to postpone or eliminate future license fee increases, it may not want to consider new proposals that seek to spend from the General License Account. Over the 2005 biennium, the executive is proposing over \$2.8 million in new proposals using the general license account.

Figure 4 FWP General License Account -- Estimate Available Fund Balance 2003 Biennium Executive Budget Request				
	Actual Fiscal 2002	Appropriated Fiscal 2003	Executive Request	
			Fiscal 2004	Fiscal 2005
Beginning Balance	\$ 23,966,967	\$ 24,344,542	\$ 19,147,458	\$ 15,320,425
License Revenue	23,077,095	25,934,231	26,176,138	26,394,996
Other Revenue	<u>2,473,973</u>	<u>1,224,628</u>	<u>1,178,337</u>	<u>1,118,072</u>
Total Funds Available	49,518,035	51,503,401	46,501,933	42,833,493
<u>Disbursements</u>				
Program Expenditures	25,673,822	26,577,697	26,900,707	26,802,784
Continuing Capital Costs	848,457	4,165,921	-	-
LRB Projects	245,669	977,495	2,500,000	-
Carry Forward Appropriations	-	634,830	-	-
Proposed Executive Pay Plan	-	-	-	-
New Proposals	-	-	<u>1,780,801</u>	<u>1,059,213</u>
Total Disbursements	26,767,948	32,355,943	31,181,508	27,861,997
Adjustments (Prior Year Revenue)	1,594,455			
Available Ending Balance	<u>\$ 24,344,542</u>	<u>\$ 19,147,458</u>	<u>\$ 15,320,425</u>	<u>\$ 14,971,496</u>

Figure 5
Fish, Wildlife and Parks

General License Account Revenues and Disbursements

Fiscal Year	Revenues	Disbursements	Difference	Cummulative
* 2005	\$ 27,513,068	\$ 27,861,997	\$ (348,929)	\$11,662,644
* 2004	27,354,475	31,181,508	(3,827,033)	9,401,420
* 2003	27,158,859	32,355,943	(5,197,084)	15,678,834
2002	25,551,068	26,767,948	(1,216,880)	12,011,573
2001	23,485,476	31,132,941	(7,647,465)	13,228,453
2000	24,682,872	25,980,492	(1,297,620)	20,875,918
1999	24,855,232	25,647,061	(791,829)	22,173,538
1998	24,556,436	23,387,660	1,168,776	22,965,367
1997	24,001,499	21,387,625	2,613,874	21,796,591
1996	25,118,865	21,082,910	4,035,955	19,182,717
1995	25,254,777	19,510,966	5,743,811	15,146,762
1994	23,200,161	18,963,554	4,236,607	9,402,951
1993	21,511,108	18,192,128	3,318,980	5,166,344
1992	18,836,165	17,152,135	1,684,030	1,847,364
1991	16,948,445	16,785,111	163,334	163,334

*Based upon estimate available fund balance.

From 1991 until 1998, General License Account revenues have exceeded disbursements. These disbursements include both present law adjustments and new proposals. Since some of the future growth in expenditures could be avoided, the legislature may want to direct the department to limit expenditures to the amount of ongoing revenues in the general license account and avoid keeping the general license account in a structurally imbalanced position.

License Commissions

Under 87-2-903 MCA, license agents are paid a commission of \$.50 for each transaction. For purposes of this section of law, the term "transaction" includes the sale of any license, permit, or certificate prescribed by the department. Statute is clear on what is considered a transaction for purposes of paying a commission. However, the executive has either paid commissions, or is proposing to pay commissions on services that do not meet the definition of "transaction" under current statute.

- Under 87-2-202 (3)(c), MCA, a \$2 hunting access enhancement fee is charged, the first time a wildlife conservation license is used, as a prerequisite to purchase a hunting license. This statute was enacted by the 2001 legislature. Section 87-2-903(6), MCA, defines a transaction as the sale of any license, permit, or certificate. Under 87-2-202(3)(c), MCA, a separate license, permit, or certificate is not sold. Only an additional fee is collected. Therefore, the collection of a fee is not a transaction under 87-2-903, MCA, and funding to pay license agents for this should be removed.
- Under DP 101 titled "Additional Commission Authority", the executive is requesting additional authority to pay commissions for each Migratory Bird Harvest Information Program (MBHIP) survey conducted. Section 87-2-903(6), MCA, defines a transaction as the sale of any license, permit, or certificate. Since this would not be considered a "transaction" under state law, the legislature may wish to reduce the department general license account authority by \$8,357, which represents the commissions paid to license agents in license year 2001. In addition, the legislature may wish to reduce DP 101 by the \$833, which represents the estimated commission paid on MBHIP surveys.
- Under the current system, if a hunter or angler desires to access state school trust lands, he or she is required to purchase a \$10 state lands use permit. The proceeds, less a \$.50 commission on each transaction, are deposited into the general license account. In the 2001 license year, \$16,513 of general license dollars was paid for commissions on state lands use permit sales.

The executive is proposing to change the way state school trust lands are compensated for use by hunters and anglers. Instead of purchasing a permit, the executive is proposing a \$1.25 increase in the conservation licenses of all hunters and anglers to be paid to the state lands trust to compensate for usage. Under the new methodology, an increase in the conservation license would not be considered a "transaction" under 87-2-903(6), MCA, and if approved, the legislature may wish to reduce general license authority by \$16,513.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	56.32	0.00	0.50	56.82	0.00	0.50	56.82	56.82
Personal Services	2,369,839	268,166	14,495	2,652,500	268,390	14,463	2,652,692	5,305,192
Operating Expenses	4,568,822	316,357	4,000	4,889,179	335,527	2,000	4,906,349	9,795,528
Equipment	10,887	0	0	10,887	0	0	10,887	21,774
Transfers	0	0	75,000	75,000	0	75,000	75,000	150,000
Total Costs	\$6,949,548	\$584,523	\$93,495	\$7,627,566	\$603,917	\$91,463	\$7,644,928	\$15,272,494
State/Other Special	5,748,821	251,120	18,495	6,018,436	278,570	16,463	6,043,854	12,062,290
Federal Special	1,200,727	333,403	75,000	1,609,130	325,347	75,000	1,601,074	3,210,204
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$6,949,548	\$584,523	\$93,495	\$7,627,566	\$603,917	\$91,463	\$7,644,928	\$15,272,494

Program Description

The Administration and Finance Division provides department-wide support for accounting, fiscal management, purchasing and property management, personnel, and federal aid administration. Additionally, the division provides information technology services to the agency and administers the sale of hunting, fishing, and other recreational licenses.

Program Narrative

Administration and Finance Division	
Major Program Highlights	
○	The addition of the automated license system (ALS) enables more types of licenses to be sold by vendors • The executive is requesting \$147,888 of general license authority to pay additional commissions
Major LFD Issues	
○	Some commissions paid by executive do not meet the statutory definition of a "transaction."

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Administration & Finance Div.						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02086 Mountain Sheep Account	\$ 9,000	0.1%	\$ 30,000	0.4%	\$ 30,000	0.4%
02112 Moose Auction	2,000	0.0%	2,000	0.0%	2,000	0.0%
02409 General License	5,737,821	82.6%	5,986,436	78.5%	6,011,854	78.6%
03097 Fish(Dj)-Wldlf(Pr) Restor Gmt	621,101	8.9%	638,623	8.4%	626,793	8.2%
03404 Overhead	579,626	8.3%	970,507	12.7%	974,281	12.7%
Grand Total	\$ 6,949,548	100.0%	\$ 7,627,566	100.0%	\$ 7,644,928	100.0%

The Administration and Finance Division operating budget is funded from the General License Account, with a portion of the indirect cost assessments coming from federal grants and non-federal accounts. The Management and Field Services Divisions are also funded from these same indirect cost assessments. The rate for the 2005 biennium from non-federal funds is 10.7 percent for operational expenditures and 4.6 percent for capital expenditures. The federal rate of 16.0 percent is applied to federal grants, which include Pittman-Robertson and Wallop-Breaux funds, Corps of Engineers and U.S. Coast Guard grants.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				361,234					361,470
Vacancy Savings				(109,241)					(109,253)
Inflation/Deflation				24,439					25,569
Fixed Costs				196,974					209,014
Total Statewide Present Law Adjustments				\$473,406					\$486,800
DP 101 - Additional Commission Authority for New Licenses									
0.00	0	73,944	0	73,944	0.00	0	73,944	0	73,944
DP 102 - Seasonal Overtime									
0.00	0	16,173	0	16,173	0.00	0	16,173	0	16,173
DP 104 - Sheep Auction Commission									
0.00	0	21,000	0	21,000	0.00	0	21,000	0	21,000
DP 105 - Periodic Property Inventory									
0.00	0	0	0	0	0.00	0	6,000	0	6,000
Total Other Present Law Adjustments									
0.00	\$0	\$111,117	\$0	\$111,117	0.00	\$0	\$117,117	\$0	\$117,117
Grand Total All Present Law Adjustments				\$584,523					\$603,917

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 101 - Additional Commission Authority for New Licenses - The Executive Budget includes an increase for license agent commissions. The following increases are part of the proposal:

- Hunter access fee - The 2001 legislature established a hunter access fee, that all hunters must pay prior to using a wildlife conservation license, as a prerequisite to purchasing any other hunting license
- There was no increase in license agent commission authority to cover the \$0.50 commission on these licenses
- Resident two-day fishing licenses - In license year 2002, the department started to sell resident two-day fishing licenses
- There was no increase in license agent commission authority to cover the commission on these licenses. Authority requested has been reduced by a corresponding reduction in full-season resident licenses
- Mountain lion license - Prior to license year 2002, only department headquarters could sell mountain lion licenses. Now, the automated license system (ALS) allows most non-agency license agents to sell these licenses. This portion of the request includes authority to pay a commission on these sales
- Duplicate licenses - Prior to license year 2002, only department headquarters could issue duplicate licenses. Now, ALS allows most non-agency license agents to issue duplicates. This portion of the request includes authority to pay a commission on these sales
- Migratory Bird Harvest Information Program (MBHIP) survey - The department pays a \$0.50 commission for every MB HIP survey completed by a license agent. Prior to license year 2002, the payment was netted against the amount owed by the license agent. Now with ALS, the \$0.50 is recorded as a commission expense. This portion of the request establishes authority for the commission

**LFD
ISSUE**

The Executive Budget proposes to pay a commission on a fee collected by license agents. According to legislative legal staff, section 87-2-903(6), MCA, defines a transaction as the sale of any license, permit, or certificate. Under 87-2-202(3)(c), MCA, a separate license, permit, or certificate is not sold. Only an additional fee is collected. The collection of a fee is not a transaction under 87-2-903, MCA. Therefore, the legislature may wish to reduce this request by the \$70,188, which represents the amount of commission proposed on this fee.

DP 102 - Seasonal Overtime - The Executive Budget includes requests for funding to maintain current budget levels for overtime, since overtime pay does not carry forward. This adjustment continues the fiscal 2002 spending level into fiscal 2004 and fiscal 2005. Overtime is used in lieu of adding more staff during peak workload periods in the areas of licensing, payroll, fiscal year end, and budget preparation.

DP 104 - Sheep Auction Commission - The Executive Budget includes a request to hire a conservation organization to auction a bighorn sheep license. This funding would restore budget authority to fiscal 2002 levels. Accounting standards require the department to record the 10.0 percent commission earned from the sale of licenses as expenditures in the state accounting records. The sheep permit is auctioned annually. The average price paid since the 1986 license year has been \$148,912, but the permit has sold for as much as \$310,000. In the 2002 license year, the winning bid was \$90,000.

DP 105 - Periodic Property Inventory - The Executive Budget includes a request to conduct a physical inventory in the second year of the biennium. The department is required by state policy to conduct a biennial department-wide physical inventory. The adjustment is requested because the inventory takes place during the second year of the biennium and expenditures are not reflected in the base.

New Proposals										
Program	FTE	General	Fiscal 2004			FTE	General	Fiscal 2005		
			State Special	Federal Special	Total Funds			State Special	Federal Special	Total Funds
DP 103 - Accounting Function Support Staff										
01	0.50	0	18,495	0	18,495	0.50	0	16,463	0	16,463
DP 106 - Legislative Contract Authority										
01	0.00	0	0	75,000	75,000	0.00	0	0	75,000	75,000
Total	0.50	\$0	\$18,495	\$75,000	\$93,495	0.50	\$0	\$16,463	\$75,000	\$91,463

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 103 - Accounting Function Support Staff - The Executive Budget includes a proposal to add 0.50 FTE to assist accounting functions in the claims section. According to the department, workload increases have made it difficult for staff to process transactions in a timely manner. Additional FTE would be used to assist with data entry, processing documents, and verifying the accuracy of the input.

DP 106 - Legislative Contract Authority - The Executive Budget includes a request for legislative contract authority at the level authorized last session. The division uses the authority to provide accounting, budgeting, personnel, and word processing support for federal and private contracts.

**LFD
ISSUE**

Please see the agency-wide issue on legislative contract authority.

Proprietary Rates

Program Description

There are three proprietary functions within this division:

Warehouse Inventory

The department warehouse contains mainly uniform items (both for wardens and non-wardens) and items specifically related to the duties of the department such as gill nets for the fisheries biologists. Overhead costs are recovered by charging a predetermined fixed percentage to all sales.

Duplicating Center

The department duplicating center provides duplicating and bindery services to department employees. The Duplicating Center has 1.00 FTE and whenever the demand for services becomes too great or a particular job is considered too large, the excess jobs are taken to Publications & Graphics to be completed.

Equipment Enterprise Fund

The department equipment fund provides a fleet of vehicles and aircraft to department employees. The revenue users are department employees, mostly enforcement wardens, fish and wildlife biologists and park employees. Users are charged for the miles driven (hours flown) during the previous month.

Revenues and Expenses

Duplicating Center

Expenses recovered in the rates are the personal services of the 1.00 FTE, operating expenses, and the raw materials needed for duplicating. Rates have been historically adjusted based on the need to increase or decrease the cash balances in the account. Prior to requesting new rates, a review of the cash balance is done. At the end of fiscal 2002, the cash balance was \$20,850.

The 60-day working capital requirement provides sufficient cash to fund on-going operations of this program. Field projects are billed monthly for the services provided during the month. The workload is fairly consistent so there is little fluctuation in cash balances except when additional inventory is purchased.

A portion of the program fund balance has been reserved for the duplicating center equipment and inventory. At the end of fiscal 2002, the book value of the fund assets was \$13,000 and the fund had \$11,600 in inventory.

Equipment Fund

The objective of the vehicle account is to recover (through rates and annual auction revenues) funds to cover administrative costs to operate the program (personal services and operations) in addition to being able to replace fleet vehicles at approximately 100,000 miles. A total of 2.06 FTE are funded in this fund. The two largest costs are fuel and repairs. In fiscal 2002, the fund spent \$625,000 on fuel and \$500,000 on repairs. In fiscal 2002 the department drove just over 5.0 million miles in department vehicles while the 10-year average is 4.9 million miles. Due to a 15.0 percent rate increase in fiscal 2003, and the proposed rate increases in fiscal 2004 and fiscal 2005, the program anticipates revenues of \$4.7 million over the 2005 biennium. These amounts are increases of approximately 19.0 percent and 23.0 percent, respectively, over base year fee revenue.

The department attempts to manage this account so that a 60-day working capital amount of cash is available when the cash balance is at its lowest level. To compensate for a cash flow problem created by keeping rates artificially low, rates were increased 25.0 percent in fiscal 2002 and 15.0 percent in fiscal 2003. The executive is requesting a 6.0 percent rate increase in fiscal 2004 and an additional 3.0 percent rate increase in fiscal 2005. The department attempts to ensure that fees are commensurate with costs over time. It does this in two ways. First, proposed rates for the next biennium take into consideration any excess income or loss generated from previous periods. Second, prior to finalizing new rates at the beginning of a new fiscal year, the rates are recalculated based on actual information.

In order to maintain a positive cash balance, the vehicle fund currently has a \$300,000 loan from another fund. Working capital at the end of fiscal 2002 was \$147,000.

Divisions are billed monthly for the miles driven (hours flown) during the previous month. Cash balances fluctuate during the year for two reasons. The first is that monthly mileage is greater during the summer and fall than during the winter and spring. The second reason is that new vehicles are purchased in the spring. Thus cash balances are normally highest in December after the hunting season and lowest in the spring after purchasing the new vehicles. Fiscal year end balances tend to be significantly higher than spring balances

There is no requirement to reserve fund balance. At the end of fiscal 2002, the vehicle fund had total assets of \$5.6 million and the book value (original cost less accumulated depreciation) of the fleet was \$5.3 million. The major liability is a \$300,000 loan to ensure a positive cash balance at year-end. As stated above, working capital at the end of fiscal 2002 was \$147,000. A portion of the program fund balance has been reserved for the book value of department vehicles and aircraft.

Warehouse Inventory

The expenses associated with the warehouse include personal services, miscellaneous office supplies, and expenses for the warehouse worker, and inventory purchases needed to replenish existing stock. Revenues are from the sales of inventory items to department employees. The executive anticipates revenues to be approximately \$90,000 per fiscal year over the 2005 biennium. Beginning in fiscal 2002, this program will fund 0.20 FTE.

The 60-day working capital requirement provides sufficient cash to fund on-going operations of this program. The department attempts to ensure that fees are commensurate with costs over time by adjusting the proposed rates for excess income or loss from previous periods. Field projects are billed monthly for the purchases made during the month. Cash balances fluctuate during the year. Cash balances are lowest during the winter when stock is replenished and highest during the summer when temporary and seasonal employees are hired.

A portion of the program fund balance has been reserved for the warehouse inventory. At the end of fiscal 2002, the warehouse inventory was \$128,510.

Rate Explanation

Duplicating Center

The rate methodology attempts to determine a rate for various duplicating and bindery services that allows the fund to recover both the cost of the raw materials and all associated personal services and operating costs. Rates have been historically adjusted based on the need to increase or decrease the cash balance. The requested rates have been increased only to recover anticipated inflationary increases in the raw materials and administrative costs. The rates have remained constant for the past 4 years.

Item	FY 2004	FY 2005
Copies		
1-20	\$0.045	\$0.050
21-100	\$0.030	\$0.035
210-100	\$0.025	\$0.030
101-500	\$0.020	\$0.025
Color - per sheet	\$0.25	\$0.25
Binding		
Collating (per sheet)	\$0.005	\$0.005
Hand Stapling (per set)	\$0.015	\$0.015
Saddle stitch (per set)	\$0.030	\$0.030
Folding (per sheet)	\$0.005	\$0.005
Punching (per sheet)	\$0.001	\$0.001
Cutting (per minute)	\$0.550	\$0.550

Equipment

The rate methodology attempts to determine a cost/mile rate for various classes of vehicles and a cost/hour rate for each class of aircraft. The methodology is to determine previous year expenses, including operating, maintenance, administration and depreciation expenses minus previous year revenue generated from the rates and the annual vehicle auction to establish the net income for a particular class. Next, the life-to-date (LTD) net income or loss on a per-mile (hour) basis is determined. Future year expenses are estimated based on the most current year information plus a 3.0 percent inflationary factor. Using the most current year mileage and the projected expenses, a cost/mile (hour) rate is determined for the future year. This rate is adjusted for any LTD net income or loss. In an attempt to minimize large increases or decreases, rates will not change more than 25.0 percent per year (10.0 percent for aircraft).

In addition, a minimum mileage rate was charged starting in fiscal 2000. This was an attempt to recover overhead costs whether a vehicle is driven or not. A minimum monthly overhead charge would be assessed to each vehicle that is not driven, and thus, does not maintain the class average mileage. By using this method, the overhead costs are recovered and low mileage vehicles are not being subsidized by higher mileage vehicles.

Each year, department employees drive over 5.0 million miles in department owned vehicles. The department currently has a fleet of over 400 vehicles, which are mainly used by enforcement officers, fish and wildlife biologists and parks employees. The department request for vehicle replacement is for 43 vehicles in both fiscal 2004 and fiscal 2005. This is based on replacing vehicles after a minimum of 100,000 miles. Annually, the department auctions these vehicles and replaces them with new vehicles. Historically, the department has replaced 40 to 45 vehicles each year. This replacement schedule does not require a present law adjustment

In an effort to simplify the rate setting process and stabilize any future rate increases, the executive is proposing to reduce the number of vehicle classes from 15 to 6.

Description	FY 2004	FY 2005
Per Mile Rates		
Sedans	\$0.28	\$0.31
Vans	\$0.29	\$0.32
Utilities	\$0.36	\$0.38
Grounds Maintenance	\$0.95	\$1.00
Pickup 1/2 Ton	\$0.35	\$0.36
Pickup 3/4 Ton	\$0.36	\$0.36

Per Hour Rates

2 Place Single Engine	\$ 56.72	\$ 56.72
Partnavia	\$283.60	\$297.78
Turbine Helicopters	\$345.72	\$345.72

Vehicles would be assessed a minimum overhead charge if not driven a minimum number of miles in addition to the regular rates.

In fiscal 2000, the department underwent an audit that indicated cash flow problems in the vehicle account. This arose from keeping the rates low in an attempt to show that rates were commensurate with costs. During the 2001 session, the department request to increase rates 25.0 percent in fiscal 2002 and 15.0 percent in fiscal 2003 was approved. In fiscal 2001, cash outflows exceeded cash inflows by \$299,000 but in fiscal 2002 cash inflows exceeded cash outflows by \$15,000. In order to recover from previous losses, the executive is requesting a 6 percent rate increase in fiscal 2004 and an additional 3.0 percent rate increase in fiscal 2005.

Warehouse Inventory

The rate requested for the warehouse is an overhead rate that is added to the cost of the inventory items. The overhead rate will generate sufficient revenue to cover the administrative costs of the program.

In order to fund 0.20 FTE for a warehouse worker, the 2001 legislature approved a 14.0 percent fixed overhead rate for fiscal 2002 and fiscal 2003. This was an increase from the 4.0 percent rate charged in the previous biennium. The executive is requesting a 5.0 percent overhead rate for each year of the 2005 biennium. The rate was calculated by estimating the support costs to maintain the warehouse function such as personal services, office supplies and other office costs. Based on estimated warehouse sales, a fixed overhead percentage is determined that allows the department to recover the warehouse support costs. This rate is also adjusted for any previous over or under collections.

Significant Present Law

The Executive Budget includes a request to restore operations budget for aircraft to the previously authorized level. Aircraft operations were under-spent primarily due to the loss of a helicopter. This proposal would be funded with the proposed increase in the equipment enterprise fund

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06503	FWP Warehouse Inventory	52010	Dept. of Fish, Wildlife & Parks	Administration

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Revenue from Warehouse sales	-	-	-	92,000	95,000	98,000
Net Fee Revenue	85,074	95,321	89,193	92,000	95,000	98,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	1	-	-	-	-
Total Operating Revenues	85,074	95,322	89,193	92,000	95,000	98,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	85,074	95,322	89,193	92,000	95,000	98,000
Operating Expenses:						
Personal Services	-	-	5,811	6,000	6,240	6,490
Other Operating Expenses	105,677	83,088	68,753	98,998	100,978	102,998
Miscellaneous, operating	125	60	(75)	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	105,802	83,148	74,489	104,998	107,218	109,488
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	105,802	83,148	74,489	104,998	107,218	109,488
Operating Income (Loss)	(20,728)	12,174	14,704	(12,998)	(12,218)	(11,488)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(20,728)	12,174	14,704	(12,998)	(12,218)	(11,488)
Contributed Capital	85,450	85,450	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	129,256	108,528	206,152	220,856	207,858	195,640
Net Income (Loss)	64,722	97,624	14,704	(12,998)	(12,218)	(11,488)
Reserved for Inventory	168,492	150,288	128,510	150,000	160,000	170,000
Unreserved Earnings/Fund Balances - June 30	25,486	55,864	92,346	57,858	35,640	14,152
60 days of expenses (Total Operating Expenses divided by 6)	17,634	13,858	12,415	17,500	17,870	18,248

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06501	FWP Office Supply	52010	Dept. of Fish, Wildlife & Parks	Administration

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Duplicating Revenue	-	-	-	78,000	79,000	80,000
Net Fee Revenue	73,958	80,371	76,851	78,000	79,000	80,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	73,958	80,371	76,851	78,000	79,000	80,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	73,958	80,371	76,851	78,000	79,000	80,000
Operating Expenses:						
Personal Services	27,140	26,070	26,158	27,638	27,834	27,777
Other Operating Expenses	33,069	55,493	49,973	55,493	56,603	57,735
Miscellaneous, operating	-	11	50	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	60,209	81,574	76,181	83,131	84,437	85,512
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	60,209	81,574	76,181	83,131	84,437	85,512
Operating Income (Loss)	13,749	(1,203)	670	(5,131)	(5,437)	(5,512)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	13,749	(1,203)	670	(5,131)	(5,437)	(5,512)
Contributed Capital	25,000	25,000	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	10,073	23,822	47,619	48,289	43,158	37,721
Net Income (Loss)	38,749	23,797	670	(5,131)	(5,437)	(5,512)
Reserve for Equipment	17,730	15,370	13,000	10,635	8,270	5,990
Reserve for Inventory	16,360	14,610	11,615	13,000	14,500	16,000
Unreserved Earnings/Fund Balances - June 30	14,732	17,639	23,674	19,523	14,951	10,219
60 days of expenses (Total Operating Expenses divided by 6)	10,035	13,596	12,697	13,855	14,073	14,252

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06502	FWP Equipment	52010	Dept. of Fish, Wildlife & Parks	Administration

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Revenue from vehicle fees	-	-	-	1,744,742	1,866,874	1,922,880
Revenue from aircraft fees	-	-	-	233,049	244,701	256,936
Net Fee Revenue	1,263,939	1,440,344	1,739,119	1,977,791	2,111,575	2,179,816
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	1	17,306	209,470	-	-	-
Total Operating Revenues	1,263,940	1,457,650	1,948,589	1,977,791	2,111,575	2,179,816
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	1,263,940	1,457,650	1,948,589	1,977,791	2,111,575	2,179,816
Operating Expenses:						
Personal Services	57,638	64,049	73,213	69,117	73,031	72,910
Other Operating Expenses	1,552,289	2,113,551	1,655,544	1,827,703	1,942,458	2,029,713
Miscellaneous, operating	11,928	7,623	8,232	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	1,621,855	2,185,223	1,736,989	1,896,820	2,015,489	2,102,623
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	1,621,855	2,185,223	1,736,989	1,896,820	2,015,489	2,102,623
Operating Income (Loss)	(357,915)	(727,573)	211,600	80,971	96,086	77,193
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(95,061)	(185,030)	(192,594)	(180,000)	(160,000)	(140,000)
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(95,061)	(185,030)	(192,594)	(180,000)	(160,000)	(140,000)
Income (Loss) Before Operating Transfers	(452,976)	(912,603)	19,006	(99,029)	(63,914)	(62,807)
Contributed Capital	2,381,987	2,381,987	-	-	-	-
Operating Transfers In (Note 13)	255,438	222,722	240,356	220,000	220,000	220,000
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	4,435,311	4,264,529	5,956,635	6,215,997	6,336,968	6,493,054
Net Income (Loss)	(197,538)	(689,881)	259,362	120,971	156,086	157,193
Reserved for Equipment	6,538,585	6,082,352	6,337,279	6,357,279	6,402,279	6,432,279
Unreserved Retained Earnings/Fund Balances - June 30	81,175	(125,717)	(121,282)	(20,311)	90,775	217,968
60 days of expenses (Total Operating Expenses divided by 6)	270,309	364,204	289,498	316,137	335,915	350,437

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	45.43	2.00	0.50	47.93	2.00	0.50	47.93	47.93
Personal Services	1,720,169	236,195	18,240	1,974,604	238,049	18,196	1,976,414	3,951,018
Operating Expenses	4,733,382	1,643,378	543,500	6,920,260	1,591,626	542,000	6,867,008	13,787,268
Equipment	14,422	0	0	14,422	0	0	14,422	28,844
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	5,057	0	0	5,057	0	0	5,057	10,114
Transfers	0	0	60,000	60,000	0	60,000	60,000	120,000
Total Costs	\$6,473,030	\$1,879,573	\$621,740	\$8,974,343	\$1,829,675	\$620,196	\$8,922,901	\$17,897,244
State/Other Special	5,752,988	1,805,238	561,740	8,119,966	1,753,937	560,196	8,067,121	16,187,087
Federal Special	720,042	74,335	60,000	854,377	75,738	60,000	855,780	1,710,157
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$6,473,030	\$1,879,573	\$621,740	\$8,974,343	\$1,829,675	\$620,196	\$8,922,901	\$17,897,244

Program Description

The Field Services Division provides services in five areas.

- The Landowner Sportsman Relations and Block Management Program: 1) establishes and maintains communications with user and resource-based organizations and individuals; 2) administers the Livestock Loss Reimbursement Program; and 3) administers the Block Management Program, which provides recreational access on private property
- The Game Damage Program provides assistance to landowners in minimizing impacts of game animals to property and crops
- The Design and Construction Bureau provides architectural and engineering services for construction and maintenance projects at state parks, state fishing access sites, and wildlife management areas.
- The Aircraft Unit provides aerial mountain lake surveys and fish planting, wildlife surveys, wildlife capture and marking, and transportation for the department
- The Land Unit is responsible for the real estate functions of the department, including conservation easements, acquisition and disposal of real estate and real property, and management of all permanent land records

Program Narrative

Field Services Division Major Program Highlights
○ The executive is seeking funding to help mitigate various wildlife conflicts ○ Total variable priced, B-10 (outfitter sponsored) licenses have averaged 5,350 and are currently priced at \$975
Major LFD Issues
○ If a fee, in lieu of a state land use permit, is approved, authority to pay license commission should be reduced Major LFD Issue - 1 goes here

Variable Priced License

HB 195, passed by the 1995 legislature, will terminate March 1, 2006 as amended by SB 338, also passed by the 1995 legislature. SB 338 changed the prior policy of license fees being set only by the legislature. The legislation authorized the Fish, Wildlife and Parks Commission to set fees on an average (over five years) of 5,500 outfitter-sponsored, nonresident big game combination B-10 Licenses, and 2,300 deer combination B-11 Licenses. Figure 1 shows the prices and number of licenses that have been sold under this authorization and is included to track the number of licenses sold over the five-year period.

Figure 1
House Bill 195 (as amended by SB 338)
Variable-priced Licenses*

Fiscal Year	License Year		B-10			B-11	
			Licenses Sold	Price		Licenses Sold	Price
1997-1998	1997	Mar. 1997-Feb. 1998	5,388	\$835		2,365	\$675
1998-1999	1998	Mar. 1998-Feb. 1999	5,372	\$835	\$735	1,973	\$720
1999-2000	1999	Mar. 1999-Feb. 2000	5,405	\$835	\$735	2,112	\$745
2000-2001	2000	Mar. 2000-Feb. 2001	5,609	\$835	\$735	2,304	\$775
2001-2002	2001	Mar. 2001-Feb. 2002	4,974	\$975	\$875	2,300	\$850
Five-year Average			<u>5,350</u>			<u>2,211</u>	

* Prices to be set by the FWP Commission so that no more than the following average number over five years is sold:

1. Outfitter sponsored non-resident big game combination license (B-10) - 5,500
2. Outfitter sponsored non-resident deer combination license (B-11) - 2,300

The termination date of the variable-priced licenses was extended by SB 338 to March 1, 2006.

**SB 394 (1997 session) allowed the FWP Commission to separate the B-7 from the B-10 non-resident big game combination license to make a B-7 or B-11 license. This authority terminates October 1, 2001.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Field Services Division

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
02334 Market Based Combo Sales	\$ 3,858,448	59.6%	\$ 5,406,662	60.2%	\$ 5,417,738	60.7%
02408 Coal Tax Trust Account	29,085	0.4%	35,954	0.4%	35,954	0.4%
02409 General License	1,822,661	28.2%	2,624,816	29.2%	2,562,439	28.7%
02410 Real Estate Trust Earnings	12,000	0.2%	-	-	-	-
02469 Habitat Trust Interest	30,794	0.5%	52,534	0.6%	50,990	0.6%
03097 Fish(Dj)-Wldlf(Pr) Restor Grnt	452,307	7.0%	466,135	5.2%	466,135	5.2%
03403 Fish & Game	-	-	60,000	0.7%	60,000	0.7%
03404 Overhead	<u>267,735</u>	<u>4.1%</u>	<u>328,242</u>	<u>3.7%</u>	<u>329,645</u>	<u>3.7%</u>
Grand Total	<u>\$ 6,473,030</u>	<u>100.0%</u>	<u>\$ 8,974,343</u>	<u>100.0%</u>	<u>\$ 8,922,901</u>	<u>100.0%</u>

The Field Services Division primary state special funding sources are from a portion of variable-priced hunting license sales and the General License Account. Lesser amounts come from Coal Tax Trust interest and Wildlife Habitat Trust interest. Federal funds consist of Pittman-Robertson (PR), as well as, this division share of the indirect cost assessments on federal grants and non-federal accounts. The proposed rate for fiscal years 2004 and 2005 from non-federal funds is 11.7 percent for operational expenditures and 4.1 percent for capital expenditures. These assessments are handled as a non-budgeted transfer to the General License Account, from which all expenses are paid. The federal overhead rate of 19.1 percent is applied to federal grants, which include Pittman-Robertson funds. The following table details the Field Services Division Funding:

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				281,534						283,476
Vacancy Savings				(80,070)						(80,151)
Inflation/Deflation				2,916						20,695
Fixed Costs				2,357						2,838
Total Statewide Present Law Adjustments				\$206,737						\$226,858
DP 201 - Restore OTO for Block Management Funding (SB285)										
2.00	0	802,000	0	802,000	2.00	0	802,000	0	802,000	
DP 202 - Block Management Funding										
0.00	0	627,000	0	627,000	0.00	0	627,000	0	627,000	
DP 203 - Game Damage Restoration										
0.00	0	41,000	0	41,000	0.00	0	41,000	0	41,000	
DP 204 - Leases										
0.00	0	30,185	0	30,185	0.00	0	30,185	0	30,185	
DP 205 - Net Client Hunting Use										
0.00	0	40,000	0	40,000	0.00	0	40,000	0	40,000	
DP 207 - Internal Service Rate Adjustment										
0.00	0	24,212	0	24,212	0.00	0	19,193	0	19,193	
DP 208 - Taxes										
0.00	0	4,609	13,828	18,437	0.00	0	4,609	13,828	18,437	
DP 212 - Public Wildlife Interface Biennial										
0.00	0	43,752	0	43,752	0.00	0	(21,248)	0	(21,248)	
DP 214 - Restore Base Operations										
0.00	0	46,250	0	46,250	0.00	0	46,250	0	46,250	
Total Other Present Law Adjustments										
2.00	\$0	\$1,659,008	\$13,828	\$1,672,836	2.00	\$0	\$1,588,989	\$13,828	\$1,602,817	
Grand Total All Present Law Adjustments				\$1,879,573						\$1,829,675

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 201 - Restore OTO for Block Management Funding (SB285) - The Executive Budget includes authority to expend block management funding generated by the variable priced big game license. The 2001 legislature enacted SB 285, which established \$802,000 of new revenue from the sale of hunting licenses and 2.00 FTE for 10 seasonal block management technicians. The revenue is earmarked to block management and associated private and public land hunting access programs, but did not become available until fiscal 2003.

DP 202 - Block Management Funding - The Executive Budget includes a request to restore block management authority to the level authorized in the 2001 session. In fiscal 2001, the block management program received new funding from earmarked fees. Not all of the budget authority was expended during fiscal 2002 and this base adjustment would annualize authority for the 2005 biennium.

DP 203 - Game Damage Restoration - The Executive Budget includes a request to restore full funding to the Game Damage Program. In the winter of 2001-2002 the game damage budget was not fully expended and this request will restore funding to levels reflective of a more severe winter.

DP 204 - Leases - The Executive Budget includes a request for authority to cover projected increases in leases paid on FWP wildlife management areas, state parks, fishing access sites, and lands owned by other departments.

DP 205 - Net Client Hunting Use - The Executive Budget includes a decision package that would reestablish budget authority in each fiscal year of the 2005 biennium, with which to calculate the impacts of net client hunting use as

required by SB 334 enacted by the 1999 legislature. The department has received only one application for increases in net client hunting by the Board of Outfitters.

DP 207 - Internal Service Rate Adjustment - The Executive Budget includes a request for increased authority for managing a fleet of vehicles and aircraft for department use. Program staff who drive department vehicles are assessed a fee for the miles they drive. The revenue generated from the vehicle rates is used to maintain the department fleet and replace existing vehicles as needed. In order to comply with the legislative audit recommendations to keep rates commensurate with costs and spend down existing cash balances, the vehicle rates have remained low.

DP 208 - Taxes - The Executive Budget is requesting a one-time only adjustment to restore the base budget in order to meet anticipated tax liabilities of \$139,000 per year. Fiscal 2002 expenditures were \$120,483. This is a one-time request to meet anticipated tax liabilities.

DP 212 - Public Wildlife Interface Biennial - The Executive Budget includes a request for a technical adjustment required by the state budget system (MBARS) in order to carry the existing division biennial appropriation for Public Wildlife Interface into fiscal years 2004 and 2005. No change from the previously approved \$65,000 base budget is being requested.

DP 214 - Restore Base Operations - The Executive Budget includes a request to restore base operations for the Field Services Division. During fiscal 2002, several positions were vacant for extended periods, resulting in an under-spending of related operations. The positions have been filled and if approved, this request would fully fund operations.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 206 - Legislative Contract Authority										
02	0.00	0	0	60,000	60,000	0.00	0	0	60,000	60,000
DP 209 - Lands Staff FTE										
02	0.50	0	21,740	0	21,740	0.50	0	20,196	0	20,196
DP 210 - Private Landowner Technical Services										
02	0.00	0	40,000	0	40,000	0.00	0	40,000	0	40,000
DP 211 - Collaborative Elk Management										
02	0.00	0	40,000	0	40,000	0.00	0	40,000	0	40,000
DP 8213 - General Recreation Use of State Lands (Requires Legislation)										
02	0.00	0	460,000	0	460,000	0.00	0	460,000	0	460,000
Total	0.50	\$0	\$561,740	\$60,000	\$621,740	0.50	\$0	\$560,196	\$60,000	\$620,196

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 206 - Legislative Contract Authority - The Executive Budget includes a request for legislative contract authority in the Field Service Division. This funding would be used for cost-sharing projects with federal agencies geared to providing public hunting access.

**LFD
ISSUE**

Please see the agency-wide issue on legislative contract authority.

DP 209 - Lands Staff FTE - The Executive Budget includes a request for 0.50 FTE to address property management issues associated with the FWP fee title and conservation easements lands program. The department has indicated that it is unable to respond in a timely fashion to department and public inquiries about matters regarding existing FWP land interests. More specifically, the department has not been timely on responses to issues identified in conservation

easement monitoring, requests related to the type of funding used to purchase a site, deed restrictions, locations, and boundaries.

DP 210 - Private Landowner Technical Services - The Executive Budget contains a request for general license authority for a pilot project to provide technical services to private landowners related to wildlife management on their lands. Services would include providing information and services related to managing wildlife and wildlife habitat on private lands, reducing and preventing game damage, developing wildlife-friendly grazing and fencing systems, and developing new techniques and strategies to help private landowners successfully integrate wildlife concerns into their land management decisions.

DP 211 - Collaborative Elk Management - The Executive Budget includes a request to provide general license funding for contracted facilitators and other support for local community-based collaborative efforts to address elk management issues. Elk herds range freely across land owned by both private and public landowners and, in some instances, the management decisions made by individual landowners can have unintended consequences on their neighbors. The department anticipates the funding would support four to six collaborative groups addressing these issues.

DP 8213 - General Recreation Use of State Lands (Requires Legislation) - The Executive Budget includes a request for budget authority to enter into a 10 year memorandum of understanding (MOU) with the Department of Natural Resources and Conservation to compensate the school trust for the value of recreational use of school trust lands by hunters and anglers. The total is an amount equivalent to \$1.25 for every conservation license sold the prior year. This proposal is the result of a request by the Board of Land Commissioners that FWP and DNRC develop an alternative to the current method of compensating the School Trust for general recreational use through the purchase of a general recreational use stamp.

This decision package is contingent upon: 1) Land Board approval; 2) the passage of legislation to eliminate the existing statutory requirement for a general recreational use stamp; and 3) the passage of legislation to raise the \$460,000 of revenue for FWP to compensate the School Trust.

**LFD
ISSUE**

If approved, the legislature may wish to reduce general license authority by \$16,513. This amount represents the amount of commission paid on state land use permits during the 2001 license year. An increase to the conservation license fee does not constitute a new "transaction" eligible for commission under 87-2-903, MCA. (Please see the agency-wide issue on commissions paid to license vendors.)

**LFD
ISSUE**

If this decision package passes and the contingencies do not occur, the legislature may wish to eliminate any appropriation approved for this purpose. If approved, language would need to accompany this decision package describing the contingent nature of the appropriation.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	111.07	0.00	3.00	114.07	0.00	3.00	114.07	114.07
Personal Services	4,696,882	457,086	108,834	5,262,802	465,697	108,728	5,271,307	10,534,109
Operating Expenses	2,239,585	383,368	296,119	2,919,072	434,286	282,863	2,956,734	5,875,806
Equipment	112,837	55,482	22,515	190,834	35,482	66,015	214,334	405,168
Grants	30,000	0	0	30,000	0	0	30,000	60,000
Transfers	0	0	2,700,719	2,700,719	0	2,700,716	2,700,716	5,401,435
Total Costs	\$7,079,304	\$895,936	\$3,128,187	\$11,103,427	\$935,465	\$3,158,322	\$11,173,091	\$22,276,518
State/Other Special	3,355,966	249,042	219,217	3,824,225	266,925	301,750	3,924,641	7,748,866
Federal Special	3,723,338	646,894	2,908,970	7,279,202	668,540	2,856,572	7,248,450	14,527,652
Total Funds	\$7,079,304	\$895,936	\$3,128,187	\$11,103,427	\$935,465	\$3,158,322	\$11,173,091	\$22,276,518

Program Description

The Fisheries Division is responsible for preserving and perpetuating aquatic species and their ecosystems and for meeting public demand for fishing opportunities and aquatic wildlife stewardship. The division formulates and implements policies and programs that emphasize management for wild fish populations and the protection and restoration of habitat necessary to maintain these populations. The program:

- Operates a hatchery program to stock lakes and reservoirs where natural reproduction is limited
- Regulates angler harvests
- Monitors fish populations
- Provides and maintains public access

Program Narrative

Fisheries Division	
Major Program Highlights	
○ The Fisheries Division is expecting an additional \$1.0 million in federal funding for native species restoration ○ The executive is seeking to add 3.00 FTE over the biennium • 1.00 FTE would be used as a hatchery support manager at Fort Peck • 2.00 FTE would be used among regions to assist fisheries biologists	
Major LFD Issues	
○ The executive is seeking funding for the fishing access site assistance program • Structured after the Block Management Program • Potential for large growth and a fee increase ○ The Echo Lake fish plant is not a high level priority due to limited success	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Fisheries Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02148 Paddlefish Roe Account	\$ 24,998	0.4%	\$ 25,000	0.2%	\$ 25,000	0.2%
02409 General License	3,330,968	47.1%	3,699,225	33.3%	3,699,641	33.1%
02942 Warm Water Fish Stamp	-	-	100,000	0.9%	200,000	1.8%
03097 Fish(Dj)-Wldlf(Pr) Restor Grnt	3,492,590	49.3%	4,258,295	38.4%	4,286,667	38.4%
03403 Fish & Game	188,300	2.7%	2,918,563	26.3%	2,919,340	26.1%
03404 Overhead	42,448	0.6%	42,443	0.4%	42,443	0.4%
03408 Cara	-	-	59,901	0.5%	-	-
Grand Total	\$ 7,079,304	100.0%	\$ 11,103,427	100.0%	\$ 11,173,091	100.0%

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					662,232					671,201
Vacancy Savings					(214,367)					(214,725)
Inflation/Deflation					14,846					36,226
Fixed Costs					0					0
Total Statewide Present Law Adjustments					\$462,711	\$492,702				
DP 306 - Computer Replacement	0.00	0	12,222	36,667	48,889	0.00	0	13,594	40,781	54,375
DP 307 - Restore OTO for Echo Lake Fish Plant	0.00	0	7,500	22,500	30,000	0.00	0	7,500	22,500	30,000
DP 309 - Internal Service Rate Adjustment	0.00	0	9,659	28,974	38,633	0.00	0	7,672	23,013	30,685
DP 310 - Hatchery Operations	0.00	0	50,000	150,000	200,000	0.00	0	53,000	159,000	212,000
DP 311 - Streamflow Gaging & Murray Springs Hatchery	0.00	0	20,000	11,000	31,000	0.00	0	20,000	11,000	31,000
DP 312 - Native Species Landowner Conservation Program	0.00	0	40,000	0	40,000	0.00	0	40,000	0	40,000
DP 313 - Equipment Replacement	0.00	0	8,870	26,612	35,482	0.00	0	8,870	26,612	35,482
DP 314 - Overtime Adjustment	0.00	0	2,305	6,916	9,221	0.00	0	2,305	6,916	9,221
Total Other Present Law Adjustments										
	0.00	\$0	\$150,556	\$282,669	\$433,225	0.00	\$0	\$152,941	\$289,822	\$442,763
Grand Total All Present Law Adjustments					\$895,936	\$935,465				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 306 - Computer Replacement - The Executive Budget contains a request to replace computers. The Fisheries Division has 62 computers that are scheduled for replacement and is asking for one new computer that would be added in the 2005 biennium. The replacement computers are spread throughout the state and are primarily for biologists, hatcheries, and other users in the division. The new computer would be utilized at the Fort Peck Hatchery and would be constructed and operational during the biennium.

DP 307 - Restore OTO for Echo Lake Fish Plant - The Executive Budget contains a request to fund costs associated with stocking rainbow trout in Echo Lake near Kalispell.

**LFD
ISSUE**

The legislature may wish to consider the following:

- Echo Lake has never been included in the department budget request but has been inserted as a one-time-only (OTO) project for approximately \$30,000 each fiscal year since fiscal 1998.
- The purpose of the stocking project is to establish a viable rainbow trout fishery in the Kalispell area.
- The stockings do not appear to have been very successful in establishing a viable rainbow trout fishery. There are problems due to competition with other predatory species (bass and pike) found in the lake.
- There is already a viable mixed species recreational fishery at Echo Lake.
- In 2001, there were approximately 5,400 angler-days of effort expended at Echo Lake of which nearly 90 percent are residents.
- The Echo Lake project is not a high priority for the Fisheries Division because of the minimal success in attaining the management goal of establishing a viable rainbow trout fishery.

Options:

- Approve the funding request
- Approve the decision package with an OTO designation
- Not approve the funding request

DP 309 - Internal Service Rate Adjustment - The Executive Budget includes a request to adjust vehicle travel costs due to inflationary and rate increases for FWP internal fleet of vehicles. Program staff who drive department vehicles are assessed a fee for the miles they drive. The revenue generated from the vehicle rates is used to maintain the department fleet and replace existing vehicles as needed. In order to comply with the legislative audit recommendations to keep rates commensurate with costs and spend down existing cash balances, the vehicle rates have remained low.

DP 310 - Hatchery Operations - The Executive Budget contains a request that would increase the hatchery operations budget by \$200,000 in fiscal 2004 and an additional 6.0 percent per year thereafter. According to the executive, the increase would be used for fish food, station utilities, and maintenance at all eight state-owned hatcheries.

**LFD
ISSUE**

Please see related equipment issue in DP 313.

DP 311 - Streamflow Gauging & Murray Springs Hatchery - The Executive Budget contains a request to increase the Murray Springs Hatchery funding for additional program development and maintenance. The federal portion of the requested funding would be fully reimbursed by the Corps of Engineers.

DP 312 - Native Species Landowner Conservation Program - The Executive Budget contains a request for general license account authority that would be used to match federal dollars, generating between \$80,000 and \$160,000 for projects centered on the conservation of native fish. The Wildlife Conservation Restoration Program, State Wildlife Grants, and Landowner Incentive Program are examples of similar federal programs the department participates in. Each of these federal programs requires a non-federal financial match ranging from 25.0 - 50.0 percent.

**LFD
COMMENT**

If the legislature wishes to ensure participation in a federal based native fish conservation program, a restricted designation could be attached to this decision package if passed.

DP 313 - Equipment Replacement - The Executive Budget includes requests in each year of the biennium to fund two hatchery distribution trucks (one truck in each fiscal year) and one replacement fish tank for a total of \$65,000.

The 2001 legislature authorized the use of the equipment budget to pay for Fisheries Division retirement payouts. In fiscal 2002, Fisheries Division used \$8,033 of equipment authority to make retirement payouts. In part, this request would restore the equipment budget by the amount redirected for these payouts.

**LFD
ISSUE**

Although this decision package states that equipment would increase by \$35,482 in each year of the biennium and would be used for hatcheries, two other DP's (PL 310 and NP 302) show significant amounts being allocated for equipment at hatcheries. If the legislature wishes to fund all equipment related DP's in the Fisheries Division as proposed, the base would increase by \$77,997 (69.1 percent) in fiscal 2004 and \$101,497 (90.0 percent) in fiscal 2005.

DP 314 - Overtime Adjustment - The Executive Budget contains a request to establish authority for overtime in the Fisheries Division. As a matter of procedure, overtime is removed from the base budget. This request is to continue the overtime budget at the same level as was approved for the 2003 biennium.

**LFD
ISSUE**

If this decision package is approved, the legislature may wish to reduce or not approve NP 301. That decision package indicates that additional FTE requested would result in fewer overtime/compensatory hours worked.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 301 - Fish Tech Support										
03	2.00	0	24,250	72,750	97,000	2.00	0	25,500	76,500	102,000
DP 302 - Fort Peck Hatchery Support										
03	1.00	0	100,000	0	100,000	1.00	0	200,000	0	200,000
DP 303 - Legislative Contract Authority										
03	0.00	0	0	2,701,319	2,701,319	0.00	0	0	2,701,322	2,701,322
DP 304 - Roving Creel Survey										
03	0.00	0	25,000	75,000	100,000	0.00	0	26,250	78,750	105,000
DP 305 - Restore OTO for FAS Assistance Program										
03	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 308 - WCRP-Prairie Riparian Study OTO										
03	0.00	0	19,967	59,901	79,868	0.00	0	0	0	0
Total	3.00	\$0	\$219,217	\$2,908,970	\$3,128,187	3.00	\$0	\$301,750	\$2,856,572	\$3,158,322

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 301 - Fish Tech Support - The Executive Budget proposes to add 2.00 FTE for technical support positions distributed among the regions to assist fisheries biologists. If approved, these positions would review private pond permits, oversee streambed protection and restoration projects, deal with recreation conflicts, and address introductions of aquatic nuisance species. The FTE would be distributed among the regions as projects arise. According to the department, efficiencies would result in fewer compensatory time hours being accumulated.

**LFD
ISSUE**

If this decision package is approved, the legislature may wish to reduce or not approve present law adjustment DP 314. That decision package requests additional funding for overtime hours. If the legislature approves NP 301, the additional FTE requested would result in fewer overtime/compensatory hours worked.

DP 302 - Fort Peck Hatchery Support - The Executive Budget contains a request for funding to provide an on-site Fort Peck Hatchery Manager to oversee construction of the site. Hiring goals include ensuring the hatchery meets department standards and familiarizing the manager with all aspects of the hatchery. The executive has indicated that a manager is desired, on-site, during the construction phase in part to coordinate system development, correct unintended design flaws, modify plans, and handle public relations.

**LFD
ISSUE**

Please see related equipment issue in DP 313.

DP 303 - Legislative Contract Authority - The Executive Budget includes a funding request for federally sponsored projects. This request would create spending authority for federally sponsored projects by such agencies as the USDA Forest Service (FS), US Fish and Wildlife Service (FWS), Bonneville Power Administration (BPA), U.S. Army Corps of Engineers (COE), and Bureau of Reclamation (BOR). With the authority, FWP would conduct fisheries investigations and aquatic restoration projects that provide mutual benefits to Montana as well as the federal agencies. In fiscal 2004 and 2005, the division is anticipating an additional \$1 million per year from the "Fisheries Restoration and Irrigation Mitigation Act of 2000" for native fish passage and screening projects funded by the U.S. Fish & Wildlife Service. This request consolidates spending from budget amendments and the Fisheries Irrigation & Restoration Act into the LCA program.

**LFD
ISSUE**

Please see the agency-wide issue on legislative contract authority.

DP 304 - Roving Creel Survey - The Executive Budget contains a request for authority to conduct roving creel surveys. Roving creel surveys are used to evaluate the effectiveness of fishing regulations and to assess the status of fish populations.

**LFD
ISSUE**

During the 2001 legislative session, as part of the alternative pay plan redirection effort, \$18,000 of general license authority for roving creel surveys was removed from the Fisheries Division base. This decision package is requesting that the \$18,000 reduction and an additional \$7,000 be restored. Because the executive requested, and ultimately was granted, a reduction in authority used to conduct roving creel surveys as part of an effort to fund alternative pay plan increases, the legislature may wish to: 1) reduce this decision package by \$18,000 general license account each year of the biennium; 2) eliminate the FTE equivalent of \$18,000 general license dollars.

DP 305 - Restore OTO for FAS Assistance Program - The Executive Budget contains a request to re-establish funding made one-time-only by the 2001 legislature. This request would provide assistance at non-FWP sites that provide public fishing access. Private access is being lost as conflicts prompt owners to exclude the public. Funding would allow regions to contract with an individual who would patrol private sites for litter, conduct minor maintenance, provide lawsuit protection, and make contact with anglers and landowners.

**LFD
ISSUE**

The Fishing Access Site Assistance program was established by 2001 legislature and was funded with one-time-only authority. Modeled after the block management program, this program would provide compensation to landowners who provide angling access opportunities. Compensation would mitigate angler impacts such as litter, noxious weeds, and lawsuits.

It is difficult to measure the effectiveness of this program since it was authorized with one-time-only authority. Through the trial period of the 2003 biennium, the department has signed four contracts to allow fishing access in exchange for approximately \$35,000 of compensation to the participating landowners. According to the department, only anecdotal evidence exists to document an increase in the number of anglers accessing private land as a result of this program.

Still in its early stages of development, the department is in the process of developing rules to govern the program as outlined in the legislation. Additional agreements are expected to be signed before the end of fiscal 2003. If the legislature wishes to continue this program as a permanent program several factors must be considered.

o

**LFD
ISSUE
(Cont.)**Growth

The department is requesting decision packages that could result in a substantial amount of growth. Although this program is starting small, the department has indicated that it expects this to be a popular program among landowners and anglers. As this program grows, the legislature might expect to see future funding requests to accommodate growth.

Funding

If this program continues to grow, the legislature might expect to see requests for permanent funding sources. As mentioned above, this program is modeled after the block management program. Over the last several years, this program has grown substantially. More recently, the legislature attached a fee to resident conservation licenses from which the funding will be used to accommodate demand for program participation. If this program were to be as popular as the block management program and the general license account is used as an on-going funding source, a license fee increase may follow.

Direction

This is new program with a limited amount of data upon which conclusions of success could be drawn. If the legislature wants to play a major role in the direction of this program it may wish to direct the department to develop a plan for gathering data that the legislature could use to assist with decision making.

Options

- o Do not fund the decision package. This option would limit department growth in a new direction.
- o Approve the decision package with restrictions
- o Require the department to develop a growth plan that shows program direction, funding, and impacts upon department resources. Report back to the 2005 legislative session with the results
- o Restrict spending to this purpose and designate any authority as one-time-only in nature
- o Approve the decision package as requested. Program growth and funding alternatives could be addressed in future legislative sessions

DP 308 - WCRP-Prairie Riparian Study OTO - The Executive Budget contains a request to restore a one-time-only authorization from the 2001 session for a Wildlife Conservation Restoration Program. The project objective is to determine the presence and distribution of fish, amphibians, reptiles, birds, and mammals in randomly selected prairie streams and associated riparian/grassland habitats in eastern Montana. Surveys for birds, mammals, fish, amphibians, and reptiles would be conducted at each site. Funding is being requested for fiscal 2004 only and the work would be contracted with Montana State University.

**LFD
COMMENT**

The executive requests that the funding be designated as one-time-only.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	102.63	0.00	2.00	104.63	0.00	2.00	104.63	104.63
Personal Services	4,916,547	324,884	86,218	5,327,649	329,220	86,068	5,331,835	10,659,484
Operating Expenses	1,383,658	96,703	56,071	1,536,432	120,837	56,221	1,560,716	3,097,148
Equipment	51,189	0	0	51,189	0	0	51,189	102,378
Grants	0	40,000	0	40,000	40,000	0	40,000	80,000
Transfers	0	0	18,000	18,000	0	18,000	18,000	36,000
Total Costs	\$6,351,394	\$461,587	\$160,289	\$6,973,270	\$490,057	\$160,289	\$7,001,740	\$13,975,010
State/Other Special	6,105,083	444,191	119,529	6,668,803	469,077	119,529	6,693,689	13,362,492
Federal Special	246,311	17,396	40,760	304,467	20,980	40,760	308,051	612,518
Total Funds	\$6,351,394	\$461,587	\$160,289	\$6,973,270	\$490,057	\$160,289	\$7,001,740	\$13,975,010

Program Description

The Law Enforcement Division is responsible for ensuring compliance with the department laws and regulations for the protection and preservation of big game animals, fur-bearing animals, fish, game birds, and other wildlife species. It also enforces laws and regulations relative to lands or waters under the jurisdiction and authority of the department such as parks, fishing access sites, and wildlife management areas, as well as those laws and regulations pertaining to boating, snowmobile, and all-terrain vehicle safety and registration. Other duties include administration of special purpose licenses, overseeing the department licensing agents, and investigating wildlife damage complaints.

Program Narrative

Law Enforcement Division Major Program Highlights	
o	An additional warden is being sought for boating, snowmobile, parks, and off-highway enforcement
Major LFD Issues	
o	The executive used a federal funding match to upgrade computers and is seeking to replace the match authority
o	The executive is seeking additional funding to give bonus pay increases to designated game wardens

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

**Program Funding Table
Enforcement Division**

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
02115 Off-Highway Vehicle Fines	\$ 37,949	0.6%	\$ 53,635	0.8%	\$ 54,283	0.8%
02329 Snowmobile Fuel Tax-Enforcemnt	23,254	0.4%	24,000	0.3%	24,000	0.3%
02334 Market Based Combo Sales	270,793	4.3%	298,592	4.3%	300,090	4.3%
02409 General License	5,494,843	86.5%	6,029,775	86.5%	6,033,441	86.2%
02411 State Parks Miscellaneous	68,778	1.1%	90,324	1.3%	90,705	1.3%
02412 Motorboat Fuel Tax	23,069	0.4%	26,602	0.4%	26,729	0.4%
02413 F & G Motorboat Cert Id	129,218	2.0%	79,033	1.1%	96,033	1.4%
02414 Snowmobile Reg	57,179	0.9%	66,842	1.0%	68,408	1.0%
03403 Fish & Game	246,311	3.9%	304,467	4.4%	308,051	4.4%
Grand Total	\$ 6,351,394	100.0%	\$ 6,973,270	100.0%	\$ 7,001,740	100.0%

The Law Enforcement Division is funded primarily with state special revenue, including the General License Account, variable priced non-resident hunting license fees, motorboat certificate fees, motorboat fuel taxes, state parks funds, income from the coal tax trust, and snowmobile and off-highway vehicle registration funds. Federal funds consist primarily of grants from the Coast Guard. Legislative contract authority is funded with money from federal land agencies that may contract with the department for enforcement of block management programs, or for achieving mutual interagency goals.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				334,948						339,464
Vacancy Savings				(210,064)						(210,244)
Inflation/Deflation				2,849						37,446
Fixed Costs				0						0
Total Statewide Present Law Adjustments				\$127,733						\$166,666
DP 407 - County Water Safety Program										
0.00	0	20,000	20,000	40,000	0.00	0	20,000	20,000	40,000	
DP 408 - Warden Overtime Compensation										
0.00	0	194,000	6,000	200,000	0.00	0	194,000	6,000	200,000	
DP 410 - Internal Service Rate Adjustment										
0.00	0	48,074	0	48,074	0.00	0	37,611	0	37,611	
DP 414 - Restore State Boating Program										
0.00	0	0	35,000	35,000	0.00	0	0	35,000	35,000	
DP 415 - Off Highway Vehicle Enforcement										
0.00	0	10,780	0	10,780	0.00	0	10,780	0	10,780	
Total Other Present Law Adjustments										
0.00	\$0	\$272,854	\$61,000	\$333,854	0.00	\$0	\$262,391	\$61,000	\$323,391	
Grand Total All Present Law Adjustments				\$461,587						\$490,057

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 407 - County Water Safety Program - The Executive Budget includes a request to fund a program to help counties increase their boating and water safety enforcement efforts through matching federal funds available under the State Recreational Boating Act administered by the U.S. Coast Guard.

DP 408 - Warden Overtime Compensation - The Executive Budget includes a request to fund wardens for work performed during official holidays, for providing emergency responses, and for increased coverage during peak times and seasons.

DP 410 - Internal Service Rate Adjustment - The Executive Budget includes a request to adjust vehicle travel costs resulting from inflation and rate increases for FWP internal fleet of vehicles. The additional funding would help manage a fleet of vehicles and aircraft for department use. Program staff who drive department vehicles are assessed a fee for the miles they drive. The revenue generated from the vehicle rates is used to maintain the department fleet and replace existing vehicles as needed. In order to comply with the legislative audit recommendations to keep rates commensurate with costs and spend down existing cash balances, the vehicle rates have remained low.

DP 414 - Restore State Boating Program - The Executive Budget includes a request to restore the authorized level of federal funding available from the U.S. Coast Guard under the State Recreational Boating Act. This federal funding source requires a 1:1 state match. The division uses state revenue from boat decal (02413) and funding from the general license account (02409) for this match. In fiscal 2002, the enforcement division was not successful in recruiting several water safety officers supported by this matched funding. According to the executive, the department redirected a portion of the general license account match due to reprioritized expenses. This resulted in unspent federal match. This proposal would restore the federal authority to previously authorized levels.

LFD ISSUE

Rather than utilize the available authority to obtain federal matching dollars, the executive made a business decision to use the authority to replace field computers with upgraded models and for other unspecified patrol, response, and investigation purposes. The executive re-directed the authority for this program because other services were deemed to be of a higher priority. The legislature may wish to consider not funding this program or funding it at a reduced level.

DP 415 - Off Highway Vehicle Enforcement - The Executive Budget includes a request to restore the fiscal 2002 level of funding supporting off-highway vehicle enforcement. The division funding to enforce Off-Highway Vehicle (OHV) registration enforcement comes from a portion of revenue generated from the sale of registration decals. In fiscal 2002, the enforcement division experienced several factors that affected the full use of this funding source. The factors included vacancies, injury and illness of wardens, as well as vacation and compensatory time reduction requirements during seasons when wardens normally use an OHV.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 401 - Warden Trainee										
04	1.00	0	29,812	7,760	37,572	1.00	0	29,812	7,760	37,572
DP 402 - Boating Parks & Recreation Law Enf Program Manager										
04	1.00	0	45,000	15,000	60,000	1.00	0	45,000	15,000	60,000
DP 405 - FTO/Trainer Compensation										
04	0.00	0	7,500	0	7,500	0.00	0	7,500	0	7,500
DP 409 - Restore OTO for Commercial Licensing										
04	0.00	0	32,000	0	32,000	0.00	0	32,000	0	32,000
DP 413 - Legislative Contract Authority										
04	0.00	0	0	18,000	18,000	0.00	0	0	18,000	18,000
DP 416 - Snowmobile Enforcement										
04	0.00	0	5,217	0	5,217	0.00	0	5,217	0	5,217
Total	2.00	\$0	\$119,529	\$40,760	\$160,289	2.00	\$0	\$119,529	\$40,760	\$160,289

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 401 - Warden Trainee - The Executive Budget includes a request to add the two 0.50 FTE trainee positions created under HB 516 during the 2001 legislature into HB 2. According to the executive the Warden Trainee Program enhances the ability of FWP to recruit and train potential new wardens from Montana universities. This program gives Montana university students an opportunity to receive warden training and obtain work after graduation.

DP 402 - Boating Parks & Recreation Law Enf Program Manager - The Executive Budget includes a request for authority for 1.00 FTE and related operations expenses to administer and manage boating, water safety, parks, snowmobile, and off highway vehicle (OHV) enforcement programs. Responsibilities would include budget development and tracking, grant funding and requests, data gathering, program evaluation, policy recommendations, and legislative issues. The incumbent will coordinate with field staff and other divisions on projects and priorities and actively participate in patrols and training program development relative to areas of responsibility.

DP 405 - FTO/Trainer Compensation - The Executive Budget includes a request to provide bonus compensation to designated wardens for additional duties performed as field training officers, firearms instructors, and use of force instructors. If approved, this proposal would provide compensation for additional duties required of Field Training Officers (FTOs) and other wardens specifically designated to perform specialized duties. FTOs are specially selected and trained wardens used by the division to train and evaluate probationary wardens in a structured field evaluation and training program and to provide recurring training to all wardens to maintain their required peace officer certification.

**LFD
COMMENT**

The bonus compensation paid to FTO officers would be above and beyond any HB 13 pay plan increases that may be approved by the legislature.

DP 409 - Restore OTO for Commercial Licensing - The Executive Budget includes a request to fund contracted services and related department operational costs in the preparation of environmental assessments, environmental impact statements, compliance inspections and administrative costs incurred in commercial wildlife permitting. The funding for this service was initially reduced due to the passage of I-143 and a reduction in the number of projects anticipated for alternative livestock facilities. I-143 was approved by voters in the November 2000 election and placed a moratorium that eliminated the ability to establish new alternative livestock operations or transfer existing operations. This proposal would further reduce the amount.

DP 413 - Legislative Contract Authority - The Executive Budget includes a request for legislative contract authority to meet unanticipated federal expenditures. The department uses this authority, in part, to be able to use federal help in felony investigations.

**LFD
ISSUE**

Please see the agency-wide issue on legislative contract authority.

DP 416 - Snowmobile Enforcement - The Executive Budget includes a request for snowmobile enforcement funding. State law mandates enforcement authority to FWP and the legislature provides funding generated through snowmobile registration and fuel taxes. In fiscal 2002, Montana experienced late snows, resulting in a shortened snowmobile season. Thus, the usual level of spending in the base year did not occur. If approved, this request would restore funding to the level authorized by the 2001 legislature.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	98.40	2.75	1.50	102.65	2.75	2.50	103.65	103.65
Personal Services	4,466,882	397,261	58,067	4,922,210	401,573	83,889	4,952,344	9,874,554
Operating Expenses	2,500,972	434,057	100,526	3,035,555	459,381	110,526	3,070,879	6,106,434
Equipment	62,251	20,000	0	82,251	30,000	10,000	102,251	184,502
Capital Outlay	0	0	0	0	0	0	0	0
Grants	135,000	0	0	135,000	0	0	135,000	270,000
Transfers	0	0	550,000	550,000	0	550,000	550,000	1,100,000
Total Costs	\$7,165,105	\$851,318	\$708,593	\$8,725,016	\$890,954	\$754,415	\$8,810,474	\$17,535,490
State/Other Special	3,744,788	485,984	69,648	4,300,420	508,981	81,104	4,334,873	8,635,293
Federal Special	3,420,317	365,334	638,945	4,424,596	381,973	673,311	4,475,601	8,900,197
Total Funds	\$7,165,105	\$851,318	\$708,593	\$8,725,016	\$890,954	\$754,415	\$8,810,474	\$17,535,490

Program Description

The Wildlife Division is responsible for the department statewide Wildlife Management Program, which enhances the use of Montana renewable wildlife resources for public benefit. It protects, regulates, and perpetuates wildlife populations with habitat management and regulated harvest. Through promotion of land management practices, wildlife habitat areas are maintained and enhanced. In addition, the program provides wildlife recreational opportunities to the public, including non-game wildlife, and provides public information regarding conservation of wildlife populations and wildlife habitats. The program manages animals legislatively categorized as big game, small game, furbearers, and threatened and endangered species.

Program Narrative

Wildlife Division	
Major Program Highlights	
○ As requested, the number of FTE would grow by 5.25 FTE ○ The executive is seeking to mitigate coal bed methane (CBM) impacts with a 1.00 FTE CBM coordinator position ○ Seeking permanent funding for bear and mountain lion research	
Major LFD Issues	
○ The executive is seeking funding for increased printing costs ○ Dollars being requested are high when compared to the same request last session ○ Enhanced internet capabilities could be used to distribute some regulations	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

**Program Funding Table
Wildlife Division**

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02061 Nongame Wildlife Account	\$ 348	0.0%	\$ 39,362	0.5%	\$ 39,362	0.4%
02085 Waterfowl Stamp Spec. Rev.	22,305	0.3%	32,305	0.4%	32,305	0.4%
02086 Mountain Sheep Account	45,380	0.6%	85,380	1.0%	85,380	1.0%
02112 Moose Auction	9,069	0.1%	16,250	0.2%	16,250	0.2%
02113 Upland Game Bird Program	77,632	1.1%	93,806	1.1%	93,997	1.1%
02409 General License	3,372,341	47.1%	3,779,508	43.3%	3,810,437	43.2%
02469 Habitat Trust Interest	217,713	3.0%	253,809	2.9%	257,142	2.9%
03097 Fish(Dj)-Wldlf(Pr) Restor Grnt	3,330,502	46.5%	3,834,781	44.0%	3,885,786	44.1%
03403 Fish & Game	-	-	500,000	5.7%	500,000	5.7%
03404 Overhead	89,815	1.3%	89,815	1.0%	89,815	1.0%
Grand Total	\$ 7,165,105	100.0%	\$ 8,725,016	100.0%	\$ 8,810,474	100.0%

The Wildlife Division state special revenue funding consists primarily of hunting and fishing license revenue. Earmarked hunting license fees fund all of the Upland Game Bird Habitat Enhancement Program and the Wildlife Habitat Program operations. Other specialized programs are funded by revenue earned from earmarked hunting license fees such as fees for waterfowl stamps, and the mountain sheep and moose license auctions. Federal funding consists of Pittman-Robertson funds. Legislative contract authority is funded with miscellaneous federal revenue.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				492,144						496,855
Vacancy Savings				(198,348)						(198,547)
Inflation/Deflation				8,827						32,477
Fixed Costs				0						0
Total Statewide Present Law Adjustments				\$302,623						\$330,785
DP 501 - Internal Service Rate Adjustment	0.00	0	21,404	19,758	41,162	0.00	0	18,115	16,721	34,836
DP 503 - Survey and Inventory Adjustment	0.00	0	20,000	60,000	80,000	0.00	0	22,000	66,000	88,000
DP 504 - Grizzly Bear Conflict Specialist R-3	0.25	0	42,289	4,699	46,988	0.25	0	42,288	4,699	46,987
DP 508 - Restore OTO for Mountain Lion Research	0.50	0	38,847	116,542	155,389	0.50	0	38,840	116,522	155,362
DP 509 - Moose Auction	0.00	0	7,181	0	7,181	0.00	0	7,181	0	7,181
DP 511 - Nongame Wildlife Program	0.00	0	39,000	0	39,000	0.00	0	39,000	0	39,000
DP 512 - Region 1 Wildlife Conflict Specialist	1.00	0	37,265	0	37,265	1.00	0	37,185	0	37,185
DP 513 - Region 4 Wildlife Biologist Reinstatement	1.00	0	25,194	16,796	41,990	1.00	0	25,139	16,759	41,898
DP 514 - Upland Game Bird Habitat adjustment	0.00	0	14,000	0	14,000	0.00	0	14,000	0	14,000
DP 515 - Wildlife Habitat Trust O & M	0.00	0	20,720	0	20,720	0.00	0	20,720	0	20,720
DP 516 - Equipment OTO	0.00	0	20,000	0	20,000	0.00	0	30,000	0	30,000
DP 518 - Printing Costs for Wildlife Regulations	0.00	0	35,000	0	35,000	0.00	0	35,000	0	35,000
DP 519 - Migratory Bird Stamp Implementation	0.00	0	10,000	0	10,000	0.00	0	10,000	0	10,000
Total Other Present Law Adjustments	2.75	\$0	\$330,900	\$217,795	\$548,695	2.75	\$0	\$339,468	\$220,701	\$560,169
Grand Total All Present Law Adjustments				\$851,318						\$890,954

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 501 - Internal Service Rate Adjustment - The Executive Budget includes a request to adjust vehicle travel costs resulting from inflation and rate increases for FWP internal fleet of vehicles. Fish, Wildlife & Parks manages a fleet of vehicles and aircraft for department use. Program staff who drive department vehicles are assessed a fee for the miles they drive. The revenue generated from the vehicle rates is used to maintain the department fleet and replace existing vehicles as needed. In order to comply with the legislative audit recommendations to keep rates commensurate with costs and spend down existing cash balances, vehicle rates have been kept low. However, cash flow projections now predict that additional revenue is needed to operate the fleet.

DP 503 - Survey and Inventory Adjustment - The Executive Budget includes a request to fund wildlife survey and inventory activities. The survey and inventory activities include monitoring wildlife species. The results would be used to make recommendations and management plans for hunting seasons. If approved the base adjustment would be used for private aircraft rental used in population monitoring efforts across the state and funded 75.0 percent with federal funds.

**LFD
COMMENT**

During the 2001 legislative session, the executive received \$138,500 for the same purpose.

DP 504 - Grizzly Bear Conflict Specialist R-3 - The Executive Budget includes a request to add 0.25 FTE in Region 3 to create a full-time position dedicated to managing grizzly, black bears, and other wildlife in the Yellowstone ecosystem. In addition, the request seeks to increase the operations funding associated with all conflict specialists positions.

DP 508 - Restore OTO for Mountain Lion Research - The Executive Budget includes a request to fund mountain lion research approved on a one-time basis during the 2001 legislature. If approved this proposal would continue the work started in 1997 and increase FTE by 0.50 to conduct the lion trapping and tract monitoring. Due to the long-term nature of this study, the department is requesting that this funding request be made permanent.

DP 509 - Moose Auction - The Executive Budget includes a request for the additional authority from increasing moose auction receipts. If approved, the additional authority would be used increase moose survey efforts to develop population trends.

DP 511 - Nongame Wildlife Program - The Executive Budget includes a request to increase operations in the non-game account that is consistent with funding availability. This money will be used in operations for survey and inventory of non-game species.

DP 512 - Region 1 Wildlife Conflict Specialist - The department is requesting 1.00 FTE wildlife conflict specialist to replace a contract position in Region 1 and respond to nuisance black bears, mountain lions, and moose in the urban/wild land interface.

DP 513 - Region 4 Wildlife Biologist Reinstatement - The Executive Budget includes a request to add an additional 1.00 FTE wildlife biologist in Great Falls. According to the executive, the workload has increased in upland bird and block management programs.

DP 514 - Upland Game Bird Habitat adjustment - The Executive Budget includes a request to add authority to the upland game bird habitat program. Last session, the legislature moved the bulk of this program into HB 5 to be managed as a capital project. If approved, the funding would be used for administration costs of the program.

DP 515 - Wildlife Habitat Trust O & M - The Executive Budget includes a request to increase annual operating authority at wildlife management areas. If approved, additional funding would be used for maintenance efforts such as fencing, weed control, and monitoring of conservation easements.

DP 516 - Equipment OTO - The Executive Budget includes a request for authority to purchase a weed boom sprayer, flail mower for weed management, game check trailer, and shared backhoe for various projects across several regions.

LFD COMMENT

The executive requests that the funding be designated as one-time-only. In addition, if the legislature desires this funding to be spent only on equipment for these purposes, it could designate the authority as restricted.

DP 518 - Printing Costs for Wildlife Regulations - The Executive Budget includes a request to increase authority costs for printing of hunting and trapping regulations due to volume and number. According to the executive, FWP prints approximately 750-800,000 regulation booklets for hunting and trapping each year. These booklets have become a source of information as well as regulation and application. The regulations annually become more costly because of the increased volume of pages as well as per page costs.

LFD ISSUE

The 2001 legislature approved a \$20,000 increase in each year of the biennium for increased printing costs. At that time, the executive indicated that the volume of printed materials nearly doubled to over 700,000 copies. This request is for an increase that is a fraction of the last request but with a funding request that is 75.0 percent higher than that granted by the 2001 legislature. In addition to the printing increase last legislative session, the legislature approved nearly \$50,000 of authority each fiscal year to enhance internet functions within the department. As an alternative to increased funding for printing costs, the legislature may wish to require the department to rely on its more advanced internet capabilities to distribute regulations.

DP 519 - Migratory Bird Stamp Implementation - The Executive Budget includes a request to increase authority for operation expenses associated with implementation of the wetland program under the Wetland Legacy Program. Migratory bird stamp revenue increased because of an increase in non-resident fees during the last legislative session. While most of the additional revenue is used in the capital funding portion of the program, increased capital activity creates additional annual operation expense to implement the program. If approved, this authority would off set these increased costs.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	
DP 502 - Coal Bed Methane Coordinator										
05	1.00	0	13,005	39,016	52,021	1.00	0	13,004	39,011	52,015
DP 505 - Research Weather Relationships with Wildlife										
05	0.00	0	1,750	5,250	7,000	1.00	0	13,214	39,642	52,856
DP 507 - Restore OTO for Black Bear Research										
05	0.50	0	14,893	44,679	59,572	0.50	0	14,886	44,658	59,544
DP 510 - Bighorn Sheep Auction										
05	0.00	0	40,000	0	40,000	0.00	0	40,000	0	40,000
DP 517 - Legislative Contract Authority										
05	0.00	0	0	550,000	550,000	0.00	0	0	550,000	550,000
Total	1.50	\$0	\$69,648	\$638,945	\$708,593	2.50	\$0	\$81,104	\$673,311	\$754,415

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 502 - Coal Bed Methane Coordinator - The Executive Budget includes a request to add 1.00 FTE to develop a mitigation plan for coal bed methane development in southeastern Montana in coordination with private industry. An environmental impact statement (EIS) is currently being written for coal bed methane (CBM) development in Southeastern Montana. The Bureau of Land Management and the state will work cooperatively in developing the monitoring. The additional FTE would be the liaison with the CBM industry, federal and state agencies, and the landowners in southeastern Montana.

DP 505 - Research Weather Relationships with Wildlife - The Executive Budget includes a request to develop a research project on the relationships between weather and wildlife populations as a step toward forecasting populations that may help with hunting season decisions.

**LFD
ISSUE**

According to the department, there are not other states that have formally established relationships between wildlife population predictions and the weather.

Options:

- Approve funding as requested
- Approve the funding as requested and eliminate funding for a lower priority project
- Do not approve

DP 507 - Restore OTO for Black Bear Research - The Executive Budget includes a request for authority to conduct an evaluation of black bear management criteria as outlined in the Black Bear EIS and add a 0.50 (Grade 11 field technician to assist in trapping/monitoring) and an additional \$23,250 in operations. Due to the long-term nature of this study, the department is requesting that this funding request be made permanent.

DP 510 - Bighorn Sheep Auction - The Executive Budget includes a request for additional operations funding. If approved, funding would be used for additional transplanting and research.

DP 517 - Legislative Contract Authority - The Executive Budget includes a request for legislative contract authority each fiscal year allowing the division to spend unanticipated federal funds. In the Wildlife Division, LCA is used to perform special surveys for federal agencies via contract. The contracts usually run through the federal fiscal year and most require a report.

**LFD
ISSUE**

Please see the agency-wide issue on legislative contract authority.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	93.55	0.00	3.87	97.42	0.00	3.87	97.42	97.42
Personal Services	3,083,284	275,977	113,509	3,472,770	277,994	113,498	3,474,776	6,947,546
Operating Expenses	1,553,181	83,999	60,731	1,697,911	101,777	60,731	1,715,689	3,413,600
Equipment	391,970	50,909	0	442,879	(282,011)	0	109,959	552,838
Capital Outlay	0	0	0	0	0	0	0	0
Grants	311,541	1,778	0	313,319	1,778	0	313,319	626,638
Transfers	0	0	50,000	50,000	0	50,000	50,000	100,000
Total Costs	\$5,339,976	\$412,663	\$224,240	\$5,976,879	\$99,538	\$224,229	\$5,663,743	\$11,640,622
General Fund	279,253	(23,823)	0	255,430	(22,816)	0	256,437	511,867
State/Other Special	4,831,807	383,031	174,240	5,389,078	68,899	174,229	5,074,935	10,464,013
Federal Special	228,916	53,455	50,000	332,371	53,455	50,000	332,371	664,742
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$5,339,976	\$412,663	\$224,240	\$5,976,879	\$99,538	\$224,229	\$5,663,743	\$11,640,622

Program Description

The Parks Division is responsible for conserving the scenic, historic, archaeological, scientific, and recreational resources of the state, and for providing for their use and enjoyment. The program includes 42 parks, 12 affiliated lands such as rifle ranges and recreation sites managed by local and federal agencies, and 320 fishing access sites. Other programs administered by the division include motorized and non-motorized trail grants, local government recreation grants, and state Capitol Complex grounds maintenance.

Program Narrative

Parks Division	
Major Program Highlights	
○ Parks Division is the only division in the department that uses general fund • \$511,867 over the biennium ○ State Parks Futures II committee suggested alternative funding sources for Parks Division • Park fee increases • Mill levy • License plate fees • Community partnerships ○ The executive is seeking a \$.01 per square foot fee increase for capital grounds maintenance	
Major LFD Issues	
○ Alternative funding sources could be used to replace general fund	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

**Program Funding Table
Parks Division**

<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 279,253	5.2%	\$ 255,430	4.3%	\$ 256,437	4.5%
02213 Off Highway Vehicle Gas Tax	29,271	0.5%	29,271	0.5%	29,271	0.5%
02239 Off Hwy Vehicle Acct (Parks)	21,682	0.4%	21,682	0.4%	21,682	0.4%
02332 Snowmobile Registration-Parks	68,042	1.3%	69,820	1.2%	69,820	1.2%
02333 Fishing Access Site Maint	118,238	2.2%	122,968	2.1%	122,968	2.2%
02407 Snowmobile Fuel Tax	647,585	12.1%	717,849	12.0%	385,363	6.8%
02408 Coal Tax Trust Account	816,316	15.3%	1,050,339	17.6%	1,050,339	18.5%
02409 General License	846,874	15.9%	1,054,989	17.7%	1,054,978	18.6%
02411 State Parks Miscellaneous	1,213,886	22.7%	1,322,160	22.1%	1,340,514	23.7%
02412 Motorboat Fuel Tax	1,069,913	20.0%	1,000,000	16.7%	1,000,000	17.7%
03097 Fish(Dj)-Wildlf(Pr) Restor Grnt	178,248	3.3%	173,574	2.9%	173,574	3.1%
03403 Fish & Game	-	-	50,000	0.8%	50,000	0.9%
03404 Overhead	50,668	0.9%	108,797	1.8%	108,797	1.9%
Grand Total	<u>\$ 5,339,976</u>	<u>100.0%</u>	<u>\$ 5,976,879</u>	<u>100.0%</u>	<u>\$ 5,663,743</u>	<u>100.0%</u>

- General fund provides a portion of the support and maintenance of parks and historic sites.
- The largest state special revenue source is park fee revenues, followed by motorboat fuel taxes, parks coal tax trust earnings, the General License Account, snowmobile fuel taxes, off-highway vehicle fuel taxes, fishing access maintenance and acquisition fee revenues, snowmobile registration fees and off-highway vehicle registration fees. The department receives the following allocations of gasoline dealers license taxes: 1) nine-tenths of 1.0 percent for maintenance of parks with motorboat use; 2) one-eighth of 1.0 percent for off-highway vehicle safety, repair of off-highway vehicle damage, and facility development; and 3) fifteen-twenty-eighths of 1.0 percent for snowmobile safety, facility development, enforcement, and control of noxious weeds. Of total Coal Severance Tax revenue collections, 1.27 percent is deposited into a non-expendable trust, with the interest from this trust allocated for maintenance of state parks and historic sites. The General License Account and earmarked fishing license fees are used to maintain fishing access sites
- Federal sources of funds include Wallop-Breaux, the National Recreational Trails, and the Land and Water Conservation funds, as well as miscellaneous federal revenues
- The department receives 6.5 percent of lodging facility tax collections for maintenance of state park facilities. However, since the money is statutorily appropriated, appropriations are not included in HB 2
- Capitol grounds maintenance is funded via a proprietary account; rate charges are based on the amount of office space occupied in the capitol complex. The legislature does not appropriate these funds, but does approve the rates

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				415,948					418,051	
Vacancy Savings				(139,971)					(140,057)	
Inflation/Deflation				7,773					21,818	
Fixed Costs				0					0	
Total Statewide Present Law Adjustments				\$283,750					\$299,812	
DP 601 - Restore Snowmobile Grant Authority	0.00	0	1,778	0	1,778	0.00	0	1,778	0	1,778
DP 602 - Snowmobile Equipment Biennial	0.00	0	50,909	0	50,909	0.00	0	(282,011)	0	(282,011)
DP 603 - Land & Water Conservation Fund	0.00	0	0	58,129	58,129	0.00	0	0	58,129	58,129
DP 605 - Internal Service Rate Adjustment	0.00	0	10,500	0	10,500	0.00	0	14,233	0	14,233
DP 606 - Restore Base Operations	0.00	0	4,342	0	4,342	0.00	0	4,342	0	4,342
DP 607 - Community Service	0.00	0	35,000	0	35,000	0.00	0	35,000	0	35,000
DP 7612 - General Fund Reduction	0.00	(31,745)	0	0	(31,745)	0.00	(31,745)	0	0	(31,745)
Total Other Present Law Adjustments				0.00	(31,745)	\$102,529	\$58,129	\$128,913	0.00	(31,745)
Grand Total All Present Law Adjustments				\$412,663					\$99,538	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 601 - Restore Snowmobile Grant Authority - The Executive Budget includes a request to restore grant authority to fund grooming of snowmobile trails that went unspent due to late winter snow.

DP 602 - Snowmobile Equipment Biennial - The Executive Budget includes a request for a biennial appropriation to purchase snowmobile-trail grooming equipment. Funds for this program come from a rebate of fees paid by users on snowmobile fuel. Funds are used to purchase snowmobile trail grooming equipment for local snowmobile clubs. Members of these clubs volunteer their time to groom trail systems all over the state. The department receives fifteen-twenty-eighths of 1.0 percent of total gasoline dealer license tax revenue to "...develop and maintain facilities open to the general public at no admission cost, to promote snowmobile safety, for enforcement purposes, and for the control of noxious weeds." This request would be used to purchase three trail groomers that are typically purchased used.

DP 603 - Land & Water Conservation Fund - The Executive Budget includes a request for federal authority to administer the Land and Water Conservation Fund program that gives grants to state and local communities for recreational improvements. In addition to grants, other work includes coordination with Montana Department of Transportation, site inspections, and planning. Since inception in 1965, approximately \$30 million has been spent improving local recreation in nearly every county in the state. If the state fails to continue to actively manage the LWCF program, Montana would be liable to repay over \$25 million in previously expended federal funds.

DP 605 - Internal Service Rate Adjustment - The Executive Budget includes a request to adjust vehicle travel costs resulting from inflation and rate increases for FWP internal fleet of vehicles. Fish, Wildlife & Parks manages a fleet of vehicles and aircraft for department use. Program staff who drive department vehicles are assessed a fee for the miles they drive. The revenue generated from the vehicle rates is used to maintain the department fleet and replace existing vehicles.

DP 606 - Restore Base Operations - The Executive Budget includes a request to restore base operations to fund daily operation costs such as security contracts, custodial contracts, mowing, fence repair, weed control, paying light bills, and the purchase of gas. This money is not an increase above the fiscal 2002 appropriated level. This request represents park operations funding that was not spent in the base year.

DP 607 - Community Service - The Executive Budget includes a request for \$31,400 per year of the biennium to utilize community service programs to assist with park maintenance projects. Montana State Parks uses modified level FTE to supplement current staff members who are supervising Montana Conservation Corps, volunteer groups, and Aspen Youth Alternative crews. Community service crews work on park projects such as toilet cleaning, vandal repair, painting, trail repair, carpentry, weed control and other labor-intensive tasks.

DP 7612 - General Fund Reduction - The Executive Budget includes a request to reduce general fund authority in the Parks Division. General fund authority is used in parks statewide to assist with maintenance and operations of the State Parks program. This request would reduce maintenance activities such as weed control, toilet pumping, and interpretive signing.

LFD ISSUE

The legislature may wish to direct the executive to raise fees as recommended by the State Parks Futures II Committee. Additional fees could be used to replace all of the Parks Division general fund authority and used for maintenance activities.

Background

Governor Martz appointed a nine-member committee to address concerns and changes that have been occurring in the State Parks system over the last several years. This committee was named the State Parks Futures Committee II and is made up of individuals that represent a variety of interests and communities across the state including five members of the legislative body. Among the concerns addressed by this committee was funding. The committee identified six funding principles that could be used as a guide when considering funding options for the state parks system. A summary of these principles follows:

- o State parks are a valuable resource with unfulfilled potential for recreation, education, conservation, and economic development
- o Without proper stewardship, the quality of the state park resources and visitor experiences will decline
- o Park management must be effective. This includes reallocation of resources, programs staffing, and funding
- o State parks cannot be self-sufficient and should be supported, in part, by public funds
- o Park users should be expected to support the parks and programs they use, yet parks should not be inaccessible to people on low incomes
- o When economic conditions allow, funding should be responsibly increased to sustain and improve the park system

Funding Alternatives

The committee identified 14 potential sources of additional funding or funding alternatives and potential revenue amounts that might be generated for use in state parks. These include:

- o Entrance fee increases in selected state parks
- o Developing community partnerships that might develop private funding sources
- o Fee increases for candlelight tours at Lewis & Clark Caverns
- o Fee increases for annual park passports
- o One-mill level dedicated to state parks (estimated to bring in \$2.2 million annually) or \$4 or \$5 license plate fee (\$3.6 to \$4.5 million).
- o Tax on rental cars (an estimate of 4.0 percent would bring \$1.3 million)
- o Pilot project to maximize collection of fees through increased staff presence
- o Increase motorboat decal fee
- o Create a motorboat launching fee
- o Create a fee decal for non-motorized boats
- o Create a "park trust" to fund all park costs
- o Create a land conversion tax that would charge a tax when undeveloped land is developed for any non-agriculture purpose
- o Increase the amount of severance taxes on natural gas production such as coal bed methane
- o Increase accommodations tax by 4.0 percent and maintain the existing allocation of the revenue by this tax

LFD
ISSUE
(continued)

While these funding sources could be used to raise revenue for state parks, they could also be used to replace general fund within the department on a dollar for dollar basis. Many of these proposed funding sources have the potential to raise substantial amounts of revenue for the park system. If the legislature accepts any of these proposals, it may wish to consider replacing \$0.5 million of general fund with new funding sources before using it for other purposes.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 604 - Legislative Contract Authority										
06	0.00	0	0	50,000	50,000	0.00	0	0	50,000	50,000
DP 609 - FAS Maintenance and Operations										
06	3.87	0	174,240	0	174,240	3.87	0	174,229	0	174,229
Total	3.87	\$0	\$174,240	\$50,000	\$224,240	3.87	\$0	\$174,229	\$50,000	\$224,229

New Proposals
The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 604 - Legislative Contract Authority - The Executive Budget includes a request for LCA authority to be used when FWP enters into partnerships with federal agencies, in order to jointly manage projects and properties where there is a mutual interest.

LFD
ISSUE

Please see the agency-wide issue on legislative contract authority.

DP 609 - FAS Maintenance and Operations - The Executive Budget includes a request to fund maintenance efforts at fishing access sites. This request would add 3.87 FTE and related operations funding. Maintenance is typically accomplished by part-time seasonal employees who live on a nearby farm, ranch, or in a small community. This request would add additional maintenance positions across the state to help keep pace with increased visitation, longer recreation seasons, and the aging of the facilities.

LFD
COMMENT

During the 2001 legislative session, funding for 2.00 FTE were approved for this purpose. The legislature may wish to consider if growth in this area of the budget is one of its priorities.

Proprietary Rates

Program Description
There are two main proprietary funds within the Parks Division: 1) Capitol Grounds; and 2) the Enterprise Fund.

Capitol Grounds Maintenance
The Parks Division of Montana Fish, Wildlife and Parks is responsible for the state Capitol Complex Grounds Maintenance program.. The department funds the program through the capitol grounds proprietary account. Indirect costs are recovered through assessment of an indirect cost rate on actual program expenditures of the previous period. The total annual cost of the capitol grounds maintenance program is allocated to state agencies based on each agency share of the total square footage of office space on the capitol complex, which is rented from Department of Administration, General Services Division.

Enterprise Fund

23-1-105 (5), MCA, authorizes the Parks Division of Montana Fish, Wildlife and Parks to establish an Enterprise Fund for the purpose of managing state park visitor services revenue. The fund is used by the department to provide inventory through purchase, production, or donation and for the sale of educational, commemorative, and interpretive merchandise and other related goods and services at department sites and facilities.

The fund was established to develop better management practices in parks visitor centers that sell books at parks like Ulm Pishkun, Makoshika, and Chief Plenty Coups as well as parks that sell items such as firewood. Money generated is used to purchase inventory and also to improve visitor services in state parks and FWP.

In fiscal 2002, this fund accounted for the following money: \$15,000 of contributed capital, \$66,008 of earned revenue, \$51,813 of receipts and a balance of funds in the amount of \$29,087.

Revenues and Expenses*Capitol Grounds Maintenance*

There are no changes proposed in the provision of services. An increase of \$0.01 cents per square foot is proposed for the 2005 biennium. On an annual basis, revenues and expenses are reviewed to ensure costs are commensurate with the fees charged agencies. Surplus cash may occur during years when the weather is favorable for maintenance and snow removal. Accumulated cash balances from previous periods are used to calculate rates for future periods. A total of 6.06 FTE are funded in this program.

The 60-day working capital requirement provides sufficient cash to fund on-going operations of the program. On a biennial basis, program costs are reviewed to ensure fees charged to agencies are commensurate with program costs. Each biennium, the account is analyzed to determine if ending cash balances are long or short relative to program working capital requirements. Calculation of rates for future periods can be affected by ending cash balances. Fund balance is reserved for reverted appropriations from the previous period.

Agencies are billed quarterly for grounds maintenance and snow removal. Cash balances fluctuate during the year relative to the season and weather conditions. Generally, cash balances are lowest in the first and last quarter of each fiscal year. This is during the busy summer months of lawn and landscape maintenance and during the start up season in the spring. During years of heavy and or frequent snowfall, cash balances can become low in the second and third quarters.

Enterprise Fund

Revenues are generated by the sales of merchandise at park visitor centers and regional offices. The expenses associated with the enterprise fund include office supplies, merchandising materials and the purchase of inventory to replenish stock. As the program develops the 60-day working capital requirement will provide sufficient cash to fund on-going operations of the program. As the program continues to develop, a portion of the fund balance will be reserved for inventory. In the first year of operation the fund cash balances were highest in the winter after the parks season ended and lowest in the spring when stock was replenished.

Rate Explanation*Grounds Maintenance*

Capitol grounds unit of service is the grounds maintenance and snow removal on the capitol complex. The unit price is the total annual revenue of the program divided by the total square footage of rented office space on the capitol complex. Square footage of rented office space on the capitol complex for the 2005 biennium is provided by General Services Division and used in these calculations. The summary of costs billed to agencies and per unit costs for fiscal 1998 - fiscal 2005 are as follows:

	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Revenue	\$297,349	\$298,562	\$296,112	\$296,000	\$319,189	\$319,189	\$326,374	\$326,374
Per Sq. Ft.	\$.3446	\$.3446	\$.3446	\$.3446	\$.3696	\$.3696	\$.3796	\$.3796

An increase in the rate of \$0.01 cents for the 2005 biennium is proposed.

Enterprise Fund

The enterprise fund applies a markup rate of no less than 40.0 percent on goods purchased for resale to ensure sufficient revenues to replenish stock.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06528	Facilities Management	52010	Dept. of Fish, Wildlife, and Parks	Parks

	Actual FY00	Actual FY01	Actual FY02	Budgeted FY03	Budgeted FY04	Budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	296,113	278,710	332,620	307,608	326,374	326,374
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	11	311	14	-	-	-
Total Operating Revenues	296,124	279,021	332,634	307,608	326,374	326,374
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	296,124	279,021	332,634	307,608	326,374	326,374
Operating Expenses:						
Personal Services	144,010	148,827	169,499	182,007	183,827	185,665
Other Operating Expenses	162,775	148,808	152,821	149,756	146,542	142,929
Miscellaneous, operating	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	306,785	297,635	322,320	331,763	330,369	328,594
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	306,785	297,635	322,320	331,763	330,369	328,594
Operating Income (Loss)	(10,661)	(18,614)	10,314	(24,155)	(3,995)	(2,220)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(10,661)	(18,614)	10,314	(24,155)	(3,995)	(2,220)
Contributed Capital*	4,587	4,587	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	83,633	77,559	68,294	78,608	54,453	50,458
Net Income (Loss)	(6,074)	(14,027)	10,314	(24,155)	(3,995)	(2,220)
Retained Earnings/Fund Balances - June 30	77,559	63,532	78,608	54,453	50,458	48,238
60 days of expenses (Total Operating Expenses divided by 6)	51,131	49,606	53,720	55,294	55,062	54,766

*Contributed capital was closed into fund balance at FYE01

Fee/Rate Information for Legislative Action						
Requested Rates for Internal Service Funds						
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Grounds Maintenance (per sq. ft.)	0.3446	0.3446	0.3696	0.3696	0.3796	0.3796

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06068	FWP Visitor Services	52010	Dept. of Fish, Wildlife & Parks	Parks

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue			65,647	66,960	68,299	69,665
Investment Earnings			360	300	300	300
Securities Lending Income			6	6	6	6
Premiums			-	-	-	-
Other Operating Revenues			-	-	-	-
Total Operating Revenues			66,013	67,266	68,605	69,971
Intrafund Revenue			-	-	-	-
Net Operating Revenues	-	-	66,013	67,266	68,605	69,971
Operating Expenses:						
Personal Services			-	-	-	-
Other Operating Expenses						
Miscellaneous, operating			51,813	58,000	60,320	62,733
Miscellaneous, other			-	-	-	-
Total Operating Expenses			51,813	58,000	60,320	62,733
Intrafund Expense			-	-	-	-
Net Operating Expenses	-	-	51,813	58,000	60,320	62,733
Operating Income (Loss)			14,200	9,266	8,285	7,238
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets			-	-	-	-
Federal Indirect Cost Recoveries			-	-	-	-
Other Nonoperating Revenues (Expenses)			-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers			14,200	9,266	8,285	7,238
Capital Contribution			-	-	-	-
Operating Transfers In (Note 13)			15,000	-	-	-
Operating Transfers Out (Note 13)			-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated			-	29,200	39,512	58,007
Net Income (Loss)	-	-	29,200	9,266	8,285	7,238
Retained Earnings/Fund Balances - June 30	-	-	29,200	38,466	47,797	65,245
60 days of expenses (Total Operating Expenses divided by 6)	-	-	8,636	9,667	10,053	10,455

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	23.55	0.00	0.00	23.55	0.00	0.00	23.55	23.55
Personal Services	1,113,240	85,764	0	1,199,004	87,194	0	1,200,434	2,399,438
Operating Expenses	1,265,351	102,619	(1,979)	1,365,991	92,097	(1,979)	1,355,469	2,721,460
Equipment	9,178	20,000	0	29,178	20,000	0	29,178	58,356
Grants	24,969	60,031	45,172	130,172	(24,969)	(14,828)	(14,828)	115,344
Transfers	0	0	50,000	50,000	0	50,000	50,000	100,000
Total Costs	\$2,412,738	\$268,414	\$93,193	\$2,774,345	\$174,322	\$33,193	\$2,620,253	\$5,394,598
General Fund	2,563	(2,563)	0	0	(2,563)	0	0	0
State/Other Special	1,770,966	167,448	43,193	1,981,607	73,356	(16,807)	1,827,515	3,809,122
Federal Special	639,209	103,529	50,000	792,738	103,529	50,000	792,738	1,585,476
Total Funds	\$2,412,738	\$268,414	\$93,193	\$2,774,345	\$174,322	\$33,193	\$2,620,253	\$5,394,598

Program Description

The Conservation Education Division, through its Helena office and six regional information officers, provides the department primary information and education programs. Its responsibilities include:

- o Distributing public information through news releases, audio-visual materials, brochures and public service announcements;
- o Coordinating youth education programs;
- o Coordinating the production of hunting, fishing and trapping regulations;
- o Coordinating the hunter, bow-hunter, snowmobile, boat and off-highway vehicle education and safety programs; and
- o Providing reception services for the department Helena headquarters.

The program also publishes Montana Outdoors Magazine, produces video documentaries and television public service announcements, as well as a weekly television report, maintains a film/video lending library and operates the department wild animal rehabilitation center.

Program Narrative

Conservation Education Division Major Program Highlights
- o Executive spending reductions in printing of off-highway vehicle brochures will be continued - o Additional federal funding is available to enhance hunter education programs
Major LFD Issues
o Enhanced internet capabilities could be used to mitigate reductions in printing costs

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

**Program Funding Table
Conservation Education Div**

<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 2,563	0.1%	\$ -	-	\$ -	-
02328 Ohv Gas Tax - Con Ed	11,086	0.5%	11,528	0.4%	11,528	0.4%
02330 Snowmobile Fuel Tax-Con Ed	56,989	2.4%	59,265	2.1%	59,265	2.3%
02408 Coal Tax Trust Account	40,180	1.7%	47,581	1.7%	47,898	1.8%
02409 General License	1,662,711	68.9%	1,863,233	67.2%	1,708,824	65.2%
03097 Fish(Dj)-Wldlf(Pr) Restor Grnt	555,602	23.0%	657,830	23.7%	657,830	25.1%
03403 Fish & Game	32,619	1.4%	83,923	3.0%	83,923	3.2%
03404 Overhead	4,705	0.2%	4,702	0.2%	4,702	0.2%
03408 Cara	46,283	1.9%	46,283	1.7%	46,283	1.8%
Grand Total	\$ 2,412,738	100.0%	\$ 2,774,345	100.0%	\$ 2,620,253	100.0%

The largest funding source in the Conservation Education Division is revenue from hunting and fishing license fees. Other state special revenue sources include interest earnings from the department Coal Tax Trust, snowmobile and off-highway vehicle fuel taxes, and off-highway vehicle decal fees. Federal funds consist of Pittman-Robertson and Wallop-Breaux funds and grants from the Coast Guard. Legislative contract authority is funded with miscellaneous federal funds at a level of \$200,000 per fiscal year.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					110,721					112,214
Vacancy Savings					(48,957)					(49,020)
Inflation/Deflation					10,195					15,122
Fixed Costs					0					0
Total Statewide Present Law Adjustments					\$71,959					\$78,316
DP 803 - Video Equipment										
	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000
DP 805 - Shooting Range Grants										
	0.00	0	70,865	0	70,865	0.00	0	(29,135)	0	(29,135)
DP 806 - Salary Adjustment										
	0.00	0	24,000	0	24,000	0.00	0	24,000	0	24,000
DP 807 - Federal PR/Section 10										
	0.00	0	0	80,000	80,000	0.00	0	0	80,000	80,000
DP 808 - Internal Service Rate Adjustment										
	0.00	0	4,155	0	4,155	0.00	0	3,718	0	3,718
DP 7809 - General Fund Reduction										
	0.00	(2,565)	0	0	(2,565)	0.00	(2,577)	0	0	(2,577)
Total Other Present Law Adjustments										
	0.00	(\$2,565)	\$119,020	\$80,000	\$196,455	0.00	(\$2,577)	\$18,583	\$80,000	\$96,006
Grand Total All Present Law Adjustments					\$268,414					\$174,322

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 803 - Video Equipment - The Executive Budget includes a request for funding to purchase video equipment to replace and update equipment currently used by the department. Weekly two-minute outdoor reports, a quarterly half-hour program produced in conjunction with the Montana Television Network, and free public service announcements are the primary products produced. Over time, equipment has worn out and become obsolete by technological advances in video equipment. This request is to replace existing equipment with digital equipment that is compatible with equipment used

by Montana television stations.

DP 805 - Shooting Range Grants - The Executive Budget includes a request to continue a biennial appropriation to fund a public shooting range grants program. FWP has administered a shooting range grants program for the last 12 years with biennial funding authority varying between \$120,000 and \$150,000. These dollars have been distributed to approximately 75 projects at 45 different locations.

DP 806 - Salary Adjustment - The Executive Budget includes a request for funding to cover anticipated increased personal services expenses associated with regional information officers expected to receive an hourly wage increase due to increased responsibilities. Adjustments will occur after the base budget personal services "snapshot" is taken in 2002.

DP 807 - Federal PR/Section 10 - The Executive budget includes a request for additional federal authority to enhance the state Hunter Education Program. As a result of the passage of the Wildlife and Sport Fish Restoration Programs Improvement Act of 2000, additional federal aid funds (Section 10) are available to enhance state hunter education programs. Montana apportionment is \$80,000 annually. Potential projects include the development of a supplemental wildlife and hunting guide for 10,000 hunter education students each year as well as the development of an outdoor-based Hunter Challenge & Skills Program as part of an optional continuing education program for hunters of all ages. The fund is to be used to "enhance" the existing hunter education program and may not be used to replace existing federal appropriations for hunter education.

DP 808 - Internal Service Rate Adjustment - The Executive Budget includes a request for increased funding to manage a fleet of vehicles and aircraft for department use. Program staff who drive department vehicles are assessed a fee for the miles they drive. The revenue generated from the vehicle rates is used to maintain the department fleet and replace existing vehicles as needed. In order to comply with the legislative audit recommendations to keep rates commensurate with costs and spend down existing cash balances, the vehicle rates have remained low.

DP 7809 - General Fund Reduction - The Executive budget includes a request to eliminate general fund authority in the Conservation Education Division. The result would be to continue spending reductions enacted under 17-7-140, MCA, at a higher level by reducing printed material relating to Off-Highway Vehicle (OHV) Safety and Education.

LFD COMMENT

Since the agency does these printings in bulk, some printed material remain in inventory. Therefore, it is unlikely that the public would do without printed safety material. To mitigate the reductions, the agency would contract for slightly smaller printing runs. In addition, the legislature may wish to direct the executive to utilize internet capabilities to distribute regulations.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 801 - Legislative Contract Authority										
08	0.00	0	0	50,000	50,000	0.00	0	0	50,000	50,000
DP 804 - Restore OTO for Shooting Range Grants Enhancement										
08	0.00	0	43,193	0	43,193	0.00	0	(16,807)	0	(16,807)
Total	0.00	\$0	\$43,193	\$50,000	\$93,193	0.00	\$0	(\$16,807)	\$50,000	\$33,193

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 801 - Legislative Contract Authority - The Executive Budget includes a request for LCA in each year of the biennium. The executive anticipates receiving dollars from federal agencies for special cooperative efforts. In the past, those projects have consisted of producing migratory bird and other wildlife guides. During this biennium, the executive

anticipates a cooperative effort with the U.S. Forest Service to operate and maintain the Wild Animal Rehabilitation and Education Center at Spring Meadow State Park.

**LFD
ISSUE**

Please see the agency-wide issue on legislative contract authority.

DP 804 - Restore OTO for Shooting Range Grants Enhancement - The Executive Budget includes a request to continue a biennial appropriation of general license dollars in support of a shooting range grant given to the department to supplement their shooting range program.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	50.23	0.00	1.30	51.53	0.00	1.30	51.53	51.53
Personal Services	2,247,360	185,771	845,096	3,278,227	185,085	58,162	2,490,607	5,768,834
Operating Expenses	1,206,499	13,915	1,330,000	2,550,414	9,109	70,000	1,285,608	3,836,022
Equipment	36,738	0	0	36,738	0	0	36,738	73,476
Capital Outlay	0	0	0	0	0	0	0	0
Grants	69,389	0	100,000	169,389	0	0	69,389	238,778
Transfers	0	0	200,000	200,000	0	200,000	200,000	400,000
Total Costs	\$3,559,986	\$199,686	\$2,475,096	\$6,234,768	\$194,194	\$328,162	\$4,082,342	\$10,317,110
State/Other Special	2,660,954	135,876	835,096	3,631,926	126,267	128,162	2,915,383	6,547,309
Federal Special	899,032	63,810	1,640,000	2,602,842	67,927	200,000	1,166,959	3,769,801
Total Funds	\$3,559,986	\$199,686	\$2,475,096	\$6,234,768	\$194,194	\$328,162	\$4,082,342	\$10,317,110

Program Description

The Department Management Division is responsible for:

- 1) Overall department direction regarding policy, planning, program development, guidelines, and budgets;
- 2) serving as a liaison with the Governor's Office and the legislature;
- 3) interaction with the Fish, Wildlife and Parks Commission;
- 4) decision-making for key resource activities affecting the department;
- 5) supervision of the seven divisions that provide program development and staff support;
- 6) supervision of the seven regional offices that are responsible for program implementation;
- 7) legal services for the department; and
- 8) serving as a liaison with Montana Indian tribes and with other state and federal agencies.

Program Narrative

Department Management Division	
Major Program Highlights	
o	\$1.2 million in additional federal funding is available to manage species of special concern
Major LFD Issues	
o	Hunting, angling, and wildlife viewing economic contribution study data may be available from other entities

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Department Management						
<u>Program Funding</u>	Base <u>Fiscal 2002</u>	% of Base <u>Fiscal 2002</u>	Budget <u>Fiscal 2004</u>	% of Budget <u>Fiscal 2004</u>	Budget <u>Fiscal 2005</u>	% of Budget <u>Fiscal 2005</u>
02409 General License	\$ 2,660,954	74.7%	\$ 3,578,526	57.4%	\$ 2,915,383	71.4%
02411 State Parks Miscellaneous	-	-	53,400	0.9%	-	-
03097 Fish(Dj)-Wldlf(Pr) Restor Grnt	-	-	240,000	3.8%	-	-
03404 Overhead	899,032	25.3%	1,162,842	18.7%	1,166,959	28.6%
03408 Cara	-	-	1,200,000	19.2%	-	-
Grand Total	<u>\$ 3,559,986</u>	<u>100.0%</u>	<u>\$ 6,234,768</u>	<u>100.0%</u>	<u>\$ 4,082,342</u>	<u>100.0%</u>

The Department Management Division operating budget is funded from the General License Account and a portion of the indirect cost assessments on federal grants and non-federal accounts. The proposed rate for the 2001 biennium for non-federal funds is 11.7 percent for operational expenditures and 4.1 percent for capital expenditures. These assessments are handled as non-budgeted transfers to the general license account, from which expenses are paid. The federal overhead rate of 19.1 percent is applied to federal grants, which include Pittman-Robertson, Wallop-Breaux, Corps of Engineers, and Coast Guard funds. Legislative contract authority is primarily for support staff associated with contracted mitigation activities funded by the federal Bonneville Power Administration.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				267,358					266,644	
Vacancy Savings				(100,587)					(100,559)	
Inflation/Deflation				10,375					14,831	
Fixed Costs				0					0	
Total Statewide Present Law Adjustments				\$177,146					\$180,916	
DP 901 - Internal Service Rate Adjustment										
0.00	0	2,540	0	2,540	0.00	0	2,104	0	2,104	
DP 902 - Printing of Statute Books										
0.00	0	1,000	0	1,000	0.00	0	(7,826)	0	(7,826)	
DP 904 - Overtime/Comp Time Costs										
0.00	0	3,000	0	3,000	0.00	0	3,000	0	3,000	
DP 907 - Commission Per Diem										
0.00	0	16,000	0	16,000	0.00	0	16,000	0	16,000	
Total Other Present Law Adjustments										
0.00	\$0	\$22,540	\$0	\$22,540	0.00	\$0	\$13,278	\$0	\$13,278	
Grand Total All Present Law Adjustments				\$199,686					\$194,194	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 901 - Internal Service Rate Adjustment - The Executive Budget includes a request to adjust vehicle travel costs resulting from inflation and rate increases for FWP internal fleet of vehicles. FWP manages a fleet of vehicles and aircraft for department use. Program staff who drive department vehicles are assessed a fee for the miles they drive. The revenue generated from the vehicle rates is used to maintain the department fleet and replace existing vehicles as needed. In order to comply with the legislative audit recommendations to keep rates commensurate with costs and spend down existing cash balances, the vehicle rates have been kept low.

DP 902 - Printing of Statute Books - The Executive Budget includes a request to reduce funding by \$7,826 in the second year of the biennium to account for cyclical costs. Following each legislative session, FWP prints statute books to inform

game wardens, other staff, and the public of relevant laws pertaining to FWP. This cost of approximately \$8,826 during the base year is cyclic and therefore is not needed during the second year of the biennium.

DP 904 - Overtime/Comp Time Costs - The Executive Budget includes a request to restore funding for the overtime budget. Clerical and administrative support staff must occasionally work in excess of 40 hours per week to meet critical deadlines. Compensatory time and flexible schedules are utilized to minimize fiscal impact, but U.S. Department of Labor rules for compensatory time payouts require that a certain amount of overtime for these services be paid. If approved, this decision package would provide funding comparable to actual expenses for the coming biennium.

DP 907 - Commission Per Diem - The Executive Budget includes a request to restore personal services authority in order to cover commissioner expenses. The budget system automatically excludes all per diem paid to FWP commissioners. These funds are used to pay expenses for travel, per diem, and other costs associated with meetings of the FWP Commission.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 905 - Restore OTO for Office Maint and Small Equipment										
09	0.00	0	30,000	0	30,000	0.00	0	30,000	0	30,000
DP 906 - Legislative Contract Authority										
09	0.00	0	0	200,000	200,000	0.00	0	0	200,000	200,000
DP 908 - Restore OTO for River Recreation Coordinator										
09	1.00	0	72,169	0	72,169	1.00	0	72,053	0	72,053
DP 909 - Economic Study										
09	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000
DP 910 - Regional Office Support Staff										
09	0.30	0	6,127	0	6,127	0.30	0	6,109	0	6,109
DP 911 - State Wildlife Grant (SWG) Federal Program										
09	0.00	0	160,000	1,200,000	1,360,000	0.00	0	0	0	0
DP 913 - FWP Retirement Liability										
09	0.00	0	546,800	240,000	786,800	0.00	0	0	0	0
Total	1.30	\$0	\$835,096	\$1,640,000	\$2,475,096	1.30	\$0	\$128,162	\$200,000	\$328,162

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 905 - Restore OTO for Office Maintenance and Small Equipment - The Executive Budget includes a request to restore funding for maintenance and minor office equipment. The 2001 legislature approved a one-time, restricted appropriation for non-capital maintenance and office equipment. This adjustment was requested to address routine building maintenance that does not rise to the level of capital expenditures such as painting, carpet, plumbing repairs; rewiring to support use of computer networks; and for replacement of small office equipment, such as FAX machines, desktop photocopiers, cash registers, computers, and printers.

LFD COMMENT

If approved without a one-time, restricted designation, funding for office maintenance and small equipment would be increased and permanent.

DP 906 - Legislative Contract Authority - The Executive Budget includes a request to spend federal funds for administrative support. This Division uses LCA funding to provide clerical and administrative support in regional offices where field staff are working on LCA projects.

**LFD
ISSUE**

Please see the agency-wide issue on legislative contract authority.

DP 908 - Restore OTO for River Recreation Coordinator - The Executive Budget includes a request to restore FTE to coordinate and facilitate recreation management plans on the most popular and congested waters in Montana. The 2001 legislature authorized a new program in the Fisheries Division budget for recreation management planning to address user conflicts on popular bodies of water. According to the executive, this function would be best utilized if it were conducted from the Director's Office. If approved, this decision package would provide permanent funding for 1.00 FTE and related operations costs.

DP 909 - Economic Study - The Executive Budget includes a request to provide funding for annual assessment of the value of hunting, fishing, and wildlife related recreation to the Montana economy. The executive collects, analyzes, and reports information on the economic value of hunting and fishing for several purposes, including environmental analyses and environmental impact statements required by the Montana Environmental Protection Act (MEPA). The last comprehensive assessment of economic value of hunting and fishing was completed in 1992. This decision package would provide funding to update this data. If approved, this appropriation would be permanent and would allow annual updates to maintain current information.

**LFD
ISSUE**

The legislature may want to consider the utility of using state resources to prepare this study. Other entities already prepare similar data. For example, using data collected by the U.S. Bureau of Census, and a survey developed with assistance from state agencies and national conservation organizations, the U.S. Fish & Wildlife Service recently produced a report that describes the impacts of hunting, angling, and wildlife viewing in dollars and days. Further, other comparable reports may also exist in the private sector or through university studies.

DP 910 - Regional Office Support Staff - The Executive Budget includes a request to add FTE for regional support staff. Regional offices provide a wide range of public services in person, on the phone, and via electronic media and provide administrative and clerical support to staff in all divisions in the region. If approved, this decision package would provide 0.30 FTE for additional staff in Missoula.

DP 911 - State Wildlife Grant (SWG) Federal Program - The Executive Budget includes a request to provide funding for surveys, monitoring, and conservation of native fish and wildlife species of special concern. Congress appropriated \$1.4 million in federal funds for use by FWP to conserve native fish and wildlife species with funding matched 1:1 or 1:3, depending on the nature of the project. The executive is requesting authority to spend \$.2 million in general license dollars and \$1.2 million in federal funds. The balance of matching funds would come from other non-federal sources.

**LFD
ISSUE**

At the request of the executive, the legislature may wish to designate any appropriation as biennial and one-time-only.

DP 913 - FWP Retirement Liability - The Executive Budget includes a request to provide one-time-only, restricted authority to fund FWP retirement payout liability. During the 2005 biennium at least 59 career FWP employees will be eligible for retirement. Termination payouts for these long-term employees would average over \$20,000 each. This decision package would create a one-time-only, biennial appropriation for a pool of restricted authority that could be used to pay retirement costs and reduce the impact on operations.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	361.03	8.25	2.00	371.28	8.25	2.00	371.28	371.28
Personal Services	13,549,361	3,698,693	85,967	17,334,021	3,690,040	85,724	17,325,125	34,659,146
Operating Expenses	26,222,312	36,727,639	365,663	63,315,614	(5,716,574)	104,615	20,610,353	83,925,967
Equipment	85,504	11,121	0	96,625	11,121	0	96,625	193,250
Grants	1,036,769	273,888	0	1,310,657	293,866	0	1,330,635	2,641,292
Benefits & Claims	1,364,619	(264,619)	0	1,100,000	(264,619)	0	1,100,000	2,200,000
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$42,258,565	\$40,446,722	\$451,630	\$83,156,917	(\$1,986,166)	\$190,339	\$40,462,738	\$123,619,655
General Fund	3,546,942	172,902	(171,501)	3,548,343	158,712	(171,500)	3,534,154	7,082,497
State/Other Special	22,494,902	30,531,881	292,611	53,319,394	(7,106,365)	131,500	15,520,037	68,839,431
Federal Special	16,216,721	9,741,939	330,520	26,289,180	4,961,487	230,339	21,408,547	47,697,727
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$42,258,565	\$40,446,722	\$451,630	\$83,156,917	(\$1,986,166)	\$190,339	\$40,462,738	\$123,619,655

Agency Description

The Department of Environmental Quality is responsible for regulating air quality, water quality, underground storage tanks, automobile wrecking facilities, hazardous waste facilities, solid waste management systems, and mining operations; and for siting and needs analyses of large-scale energy facilities. In addition, the department is the lead agency for reclamation and clean-up activities related to the federal and state superfund programs, leaking underground storage tanks, and regulation and permitting of mining conducted on private, state, and federal lands.

Reorganization

The Executive Budget includes a request for an agency reorganization that would move the Montana Environmental Protection Act (MEPA) program to the Central Management Division. MEPA applies to the entire department with the director being the final decision maker. Thus, the executive decided to request a transfer of two FTE in the MEPA Unit from Program 50 to Program 10. There are no financial savings or additional costs from the creation of the unit in Program 10.

Executive Recommended Legislation

The Executive Budget includes decision package requests that are contingent upon passage of legislation.

- Re-earmark Certain Funds - The executive has proposed legislation that would amend several state statutes and earmark portions of fines, fees, and penalties from activities in asbestos control, hazardous waste management, motor vehicle recycling, public water supply, underground mining, underground storage tank, subdivisions, and water quality. Funding would be deposited to a state special revenue fund and utilized in a general fund switch that would ultimately support legal contingencies and database development in the Central Management Program.
- Earmark Air Quality Funds - The executive has proposed legislation that would amend several state statutes to earmark portions of fines, fees, and penalties from air quality activities. Funding would be deposited to a state special revenue fund and utilized in a general fund switch that would ultimately support violation enforcement, evaluation, and investigation in the Enforcement Division.

For a further discussion of these issues, see the Central Management Program and the Enforcement Division narrative.

Agency Discussion

Department of Environmental Quality Major Budget Highlights	
○ The department requests present law adjustments totaling \$40.6 million in fiscal 2004 and a reduction of \$1.9 million in 2005 for a net gain of \$38.7 million over the biennium ○ When compared to the approved budget from the 2001 legislative session, adjustments to general fund result in a decrease of \$1.1 million ○ The largest request seeks spending authority of \$20.8 million for bond forfeitures ○ Another significant request seeks spending authority of \$5.5 million state special revenue for mine reclamations with funding derived from the sale of general obligation bonds ○ Other major present law adjustments include decision packages for "base adjustments" that total \$7.3 million over the biennium ○ In addition to present law adjustments, the department is requesting 10 new proposals totaling \$451,630 in fiscal 2004 and \$190,339 in 2005	
Major LFD Issues	
○ Pay increases associated with pay plan 20 will cost the department \$2.5 million over the biennium ○ Reductions to fund \$.6 million of these costs are short term in nature ○ The executive is requesting \$7.3 million of "base" adjustments over the biennium. Many of these reductions are due to vacancies ○ The executive is continuing with its database development project ○ Ongoing maintenance costs are significant ○ General fund support programs could be considered for reduction or elimination	

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
Enforcement Division	\$ 832,988	\$ 429,910	\$ 663,288	\$ 1,926,186	1.6%
Central Management Program	554,640	1,731,987	914,711	3,201,338	2.6%
Plan.Prevent. & Assist.Div.	3,740,669	2,590,132	19,397,421	25,728,222	20.8%
Remediation Division	-	9,761,952	13,687,019	23,448,971	19.0%
Permitting & Compliance Div.	1,954,200	54,325,450	13,035,288	69,314,938	56.1%
Grand Total	\$ 7,082,497	\$ 68,839,431	\$ 47,697,727	\$ 123,619,655	100.0%

Over the 2005 biennium, proposed general fund usage represents approximately 5 percent of the department's total budget and 5.5 percent of the HB 2 budget. General fund usage would decline by \$1.1 million from the budget approved by the 2001 legislature.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	369.28	2.00	371.28	369.28	2.00	371.28	361.03	371.28
Personal Services	17,248,054	85,967	17,334,021	17,239,401	85,724	17,325,125	29,394,663	34,659,146
Operating Expenses	62,949,951	365,663	63,315,614	20,505,738	104,615	20,610,353	72,972,151	83,925,967
Equipment	96,625	0	96,625	96,625	0	96,625	270,990	193,250
Grants	1,310,657	0	1,310,657	1,330,635	0	1,330,635	2,570,140	2,641,292
Benefits & Claims	1,100,000	0	1,100,000	1,100,000	0	1,100,000	3,500,000	2,200,000
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$82,705,287	\$451,630	\$83,156,917	\$40,272,399	\$190,339	\$40,462,738	\$108,707,944	\$123,619,655
General Fund	3,719,844	(171,501)	3,548,343	3,705,654	(171,500)	3,534,154	7,479,706	7,082,497
State/Other Special	53,026,783	292,611	53,319,394	15,388,537	131,500	15,520,037	63,830,927	68,839,431
Federal Special	25,958,660	330,520	26,289,180	21,178,208	230,339	21,408,547	37,397,311	47,697,727
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$82,705,287	\$451,630	\$83,156,917	\$40,272,399	\$190,339	\$40,462,738	\$108,707,944	\$123,619,655

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 59 - NP-Homeland Security, Water System Security										
50	1.00	0	0	150,000	150,000	1.00	0	0	150,000	150,000
DP 62 - TFAB STAG Grant										
20	1.00	0	0	70,520	70,520	1.00	0	0	70,339	70,339
DP 65 - HWSC - UST Fields Site Billings Cleanup - OTO										
40	0.00	0	11,111	100,000	111,111	0.00	0	0	0	0
DP 200 - 10 MEPA Reorg from Prg 50										
10	3.00	123,125	1,000,000	0	1,123,125	3.00	123,052	0	0	123,052
DP 201 - 50 Move MEPA to Program 10										
50	(3.00)	(153,126)	(1,000,000)	0	(1,153,126)	(3.00)	(153,052)	0	0	(153,052)
DP 7029 - Solid Waste General Fund Reduction										
50	0.00	(40,000)	40,000	0	0	0.00	(40,000)	40,000	0	0
DP 7039 - Water Permits Funding Adjustments										
50	0.00	(36,500)	36,500	0	0	0.00	(36,500)	36,500	0	0
DP 8013 - Legal Contingency & Database Development										
10	0.00	0	150,000	0	150,000	0.00	0	0	0	0
DP 8013 - Enforcement Reduction & Fund Switch										
30	0.00	(65,000)	55,000	10,000	0	0.00	(65,000)	55,000	10,000	0
Total	2.00	(\$171,501)	\$292,611	\$330,520	\$451,630	2.00	(\$171,500)	\$131,500	\$230,339	\$190,339

Agency Issues

Alternative Pay Plan - Department-wide move to Pay Plan 20

The department is one of several that recently adopted alternative classification and pay plan guidelines. The Montana Human Resources Competency Project (the Competency Project) was initiated by Governor Racicot's administration and approved by the 1997 legislature on the premise that it would provide a management tool to help state agencies respond to fast-changing human resource issues. The Competency Project provides an alternative classification and pay system with two concepts that provide agency management with increased human resource flexibility. These concepts are competencies and broadbanding.

Competencies are measurable and observable knowledge, skills, abilities, and behaviors that contribute to success in a job. The Broadband Plan (pay plan 20) is a two-tiered process of competencies and broad pay bands intended to provide agency flexibility. Broadbanding is a strategy for salary structure that consolidates a large number of pay grades into a few "broad bands."

The purpose of this pay plan was to develop a plan whereby employees and managers would have access to a mechanism to reward demonstrated competencies and service and to recruit and retain qualified employees. Citing authority given under 2-18-303, MCA, and employee turnover of up to 50 percent, the department began an agency-wide migration to pay plan 20 beginning with an increase in pay.

Although employees received a pay increase through HB 13, the department believed that its ability to recruit and retain qualified employees would be enhanced by increasing pay even more. In order to determine how much additional money to pay employees, the executive conducted a market survey using several widely used survey sources. Based upon that data--type of position, length of service, and other factors, such as historical turnover-- employees were given an additional pay increase.

Even though pay increases given as part of the Broadband Plan implementation will increase personal service costs, the Office of Budget and Program Planning (OBPP) indicated that they developed a plan to offset the Broadband Plan Pay increases. OBPP staff has indicated that the 2003 legislature could expect to see a method comparable to that used by the Department of Fish, Wildlife, and Parks (FWP) during the 2001 legislature to neutralize the fiscal impacts of broadbanding related pay increases. The method used by FWP involved a series of negative decision packages presented as part of the Executive Budget. These negative decision packages reduced base operation expenditures within the department by the amount of the increase in personal service costs attributable to market-based or compensation-based pay increases associated with the move to the Broadband Plan.

Similarly, the executive has used a series of negative decision packages to offset the cost of the move to pay plan 20. The following figure summarizes these decision packages by funding source. The final column shows how much of the total reduction was applied to personal services.

Figure 1
Department of Environmental Quality
Negative Decision Packages to Fund Alternative Pay Plan -- 2005 Biennium

		<u>General</u>	<u>State Special</u>	<u>Federal</u>	<u>Proprietary</u>	<u>Total</u>	<u>Personal Services</u>
<u>Central Management Program -- 10</u>							
Attorney Pool	PL 75	\$ 8,654	\$ 14,920	\$ 13,534		\$ 37,108	
CMP -- HB 576	PL 89				105,000	105,000	
<u>Planning, Prevention, and Assistance -- 20</u>							
Resource Planning	PL 5	203,544		39,184		242,728	126,590
Monitoring	PL 7	37,472	22,306	78,226		138,004	19,834
Pollution	PL 10		40,474	71,638		112,112	37,632
Technical	PL 12	2,500	22,542	217,540		242,582	97,280
<u>Program 30 -- Enforcement</u>							
Enforcement	PL 14	54,176	17,302	36,118		107,596	
<u>Program 40 Remediation</u>							
Hazardous Waste	PL 83		107,714	6,430		114,144	82,390
Mine Waste	PL 84		120,000			120,000	
Technical Services	PL 85		42,806	11,762		54,568	
Financial Assistance	PL 87		30,816	22,108		52,924	33,212
<u>Program 50 Permitting and Compliance</u>							
Permitting and Compliance	PL 18	87,260	974,080	143,312	-	1,204,652	326,188
Total Negative DP's to Fund Pay Plan 20		<u>\$393,606</u>	<u>\$ 1,392,960</u>	<u>\$639,852</u>	<u>\$ 105,000</u>	<u>\$ 2,531,418</u>	<u>\$ 723,126</u>

As figure 1 shows, the move to the alternative pay plan cost the executive \$2.5 million. However, unlike the methodology of permanently reducing operations expenses used by FWP, some of the decision packages used by the executive reduced personal services as part of the overall reduction. This differs from the method used by FWP in an important way - utilizing personal services as a reduction tool is not permanent. If approved, personal services authority would be reduced by \$0.7 million over the 2005 biennium. However, a snapshot of personal services will be taken before the 2007 biennium. At that time, the personal services budget will be fully funded based upon the pay attributes of all established FTE. Thus, any personal services authority that was reduced for the alternative pay plan will be fully funded for the 2007 biennium. This makes the proposed negative decision packages short-term in nature, unless actual FTE funded are reduced.

The analysis reveals several issues with the move to pay plan 20:

1) Cost "neutral" in nature

Because of budget constraints, agency moves to pay plan 20 were characterized as cost "neutral", being similar to the method used by FWP to move to an alternative pay plan in which appropriation authority was shifted from operations to personal services. Reducing personal services authority to fund pay plan 20 costs without reducing FTE is short term in nature. This method burdens future legislatures with finding resources to pay for these additional personal service costs when they become fully funded in the 2007 biennium.

2) The department is requesting present law and new proposal adjustments similar to proposed reductions

Funding of this pay plan is only cost "neutral" if expenditures are permanently reduced from the base and if they are not replaced. As the legislature examines each of the decision packages, they should keep in mind that in many cases the agency is requesting authority for proposals that are very similar to the proposed reductions. Therefore, if the reductions proposed are truly not necessary, and if the pay plan is to be neutral, the expenses should not be replaced in the department's budget. In this way, the pay plan would be permanently funded via base reductions. If the agency contends it must perform the functions it proposes to cut to fund the pay plan, the pay proposal is not neutral.

3) DEQ has already starting paying employees based upon the alternative pay plan

The increase in pay was captured in the personal services "snapshot" taken before the 2005 biennium used to calculate personal services. Consequently, even without additional increases, over \$2.5 million will be included in the department's base over the biennium unless the base is permanently reduced and funding is not replaced. The legislature should examine the extent to which services would be reduced in future fiscal years to fund continued levels of increased pay.

4) DEQ is requesting services as if all positions will be filled throughout the biennium.

As stated, one of the reasons DEQ went to the broadband plan was due to high vacancies and turnover in key positions. As discussed in the programs that follow, the department is requesting decision packages that fully fund operations associated with the positions on the assumption they will be filled. Further, DEQ anticipates the additional pay will significantly impact vacancy rates.

Options

- Accept the executive proposal and approve all negative decision packages as proposed
- Approve all negative decision packages and reduce FTE by the number necessary to fund the pay plan on an on-going basis
- Approve negative decision packages and reduce FTE by the number necessary to make personal services portions of the decision packages permanent in nature
- Examine each base reduction and decision package independently to determine worth and approve only selected negative decision packages
- Direct the department to document the impact of pay plan 20 on recruitment and retention efforts. With a full biennium under pay plan 20, the legislature would be in a better position to select vacant positions and associated operations costs for elimination. An update could be given to the 2005 legislature
- Do not approve negative decision packages

Base Adjustments

The executive proposes "base adjustments" that group a number of, at times disparate, present law adjustment requests in nearly every division. Although not an exclusive reason for the requests, many of the adjustments are being requested because divisions had vacant positions. For the department, the vacant positions mean a reduced level of spending and a smaller base. However, as was discussed above, the department moved to pay plan 20. The department is very optimistic that increased pay under pay plan 20 will improve the department's recruitment and retention efforts. Thus, many of the vacant positions throughout the department would become filled. If that materializes as the department anticipates, there would be funding for the FTE, but a lack of funding for associated operations costs.

For brevity, detailed descriptions of the requested adjustments are not made in the analysis. However, this information will be available for legislative decision-making. More detailed information regarding justification for base expenditure adjustments is also available upon request. Figure 2 summarizes the decision packages that are characterized as "base" adjustments:

Figure 2

**Department of Environmental Quality
Summary of "Base Adjustment" Decision Packages**

	Fiscal 2004				FY2005			
	General Fund	State Special	Federal	Proprietary	General Fund	State Special	Federal	Proprietary
Central Management Program -- 10								
Board of Environmental Review	PL 1 \$ 2,870			\$ 2,870	\$ 2,870			\$ 2,870
Central Management Program	PL 2			243,441	243,441			243,441
Attorney Pool - Base Adjustments	PL 3	10,892	18,776	17,039	46,707			-
Total Program 10	\$ 13,762	\$ 18,776	\$ 17,039	\$ 243,441	\$ 293,018	\$ 2,870	\$ -	\$ 243,441
Planning Prevention and Assistance Bureau -- 20								
Resource Protection and Planning Bureau (RPPB)	PL 4	40,634	101,705	624,539	766,878	(24,077)	98,934	685,455
Monitoring and Data Management Bureau (MDMB)	PL 6	130,430	18,445	519,739	668,614	126,653	18,182	479,736
Technical and Financial Assistance Bureau (TFAB)	PL 8	(47,701)	70,895	365,394	388,588	(47,764)	71,785	362,986
Pollution Prevention Bureau (PPB)	PL 9	7,415	27,094	(45,292)	(10,783)	7,415	26,850	(42,114)
Administration	PL 11	(25,357)	21,918	11,619	8,180	(30,745)	21,896	11,498
Total Program 20	\$ 105,421	\$ 240,057	#####	\$ -	\$ 1,821,477	\$ 31,482	\$ 237,647	#####
Enforcement Division -- 30								
Enforcement	PL 13	35,812	11,435	23,873	71,120	38,776	12,381	25,848
Enforcement Leased Vehicles	PL 73	-	8,444		8,444		6,318	
Total Program 30	\$ 35,812	\$ 19,879	\$ 23,873	\$ -	\$ 79,564	\$ 38,776	\$ 18,699	\$ 25,848
Remediation Division -- 40								
Hazardous Waste Site Cleanup Bureau	PL 15	(147,322)	159,520	12,198	-	(147,324)	174,257	26,933
Mine Waste Cleanup Bureau (MWCB)	PL 16	30,000	40,041	70,041	70,041	31,632	46,439	78,071
Technical Services Bureau (TSB)	PL 17	62,652	(16,793)	45,859	45,859	69,343	(16,793)	52,550
Mine Waste Cleanup (MWCB) Asbestos Removal	PL 54		145,000	145,000	145,000		145,000	145,000
Petro Board	PL 66	65,000		65,000	65,000	65,000		65,000
Fiscal and Admin. Services (FAS)	PL 86	7,149	5,127	12,276	12,276	10,122	7,259	17,381
Total Program 40	\$ -	\$ 17,479	\$ 332,895	\$ -	\$ 350,374	\$ -	\$ 28,773	\$ 356,162
Permitting Compliance Division -- 50								
Permitting Compliance Division	PL 19		9,926		9,926		9,926	
MT Environmental Protection Act (MEPA) Admin.	PL 22	20,308		20,308	20,308			9,926
MEPA Projects	PL 23		548,421	548,421	548,421			20,308
Air Base Adjustments	PL 24		86,688	86,688	86,688		(451,579)	86,553
Hazardous Waste	PL 25		47,691	23,594	47,961		23,977	86,553
Asbestos	PL 26		7,867	(6,052)	1,815		(6,077)	2,473
Junk Vehicle	PL 27		40,998	40,998	40,998		41,188	41,188
Public Water Supply	PL 28		32	53,787	53,819		54,528	54,637
Solid Waste	PL 29		54,587	61,573	61,573		58,579	65,565
Waste Water Operator	PL 30	6,986	39,572	29,876	69,448	6,986	39,619	69,599
Hard Rock	PL 31	3,207	92,057	95,264	95,264		84,536	84,536
Major Facilities Siting Act (MFSa) Administration	PL 32	(37,888)			(37,888)			(37,888)
Major Facilities Siting Act (MFSa) Projects	PL 33		300,000	300,000	300,000		149,896	163,370
Coal Program	PL 36		12,843	147,371	160,214		50,471	33,061
Open-cut Program	PL 37	(18,012)	48,061	30,049	60,049	(17,410)		266,295
Subdivisions	PL 38		261,264	261,264	261,264			

**LFD
ISSUE**

It appears that many of the base adjustments are requested because of vacant positions, numerous small equipment requests, and hiring interns. In addition, the department states, in most cases, full levels of staffing are anticipated. Although it is the position of the department that the move to pay plan 20 will significantly reduce the number of vacant positions, it does not articulate why the positions have been vacant or when they will be filled.

As discussed in the pay plan 20 issue, the legislature may wish to direct the department to document the impact of pay plan 20 on recruitment and retention efforts. With a full biennium under pay plan 20, the legislature would be in a better position to select vacant positions and associated operations costs for elimination. An update could be given to the 2005 legislature.

Resource Indemnity Trust

The department administers two accounts that receive a portion of resource indemnity trust (RIT) interest: 1) hazardous waste/CERCLA (22 percent of the interest remaining after distribution); and 2) environmental quality protection (EQPF) (7.5 percent after distribution). The executive is proposing to use \$1,837,594 from hazardous waste/CERCLA and \$1,904,900 from EQPF for projects over the biennium. Figure 3 details the uses of this funding.

Figure 3
Environmental Quality
Executive Request --RIT Accounts

	FY 2004	FY 2005	Biennium
<u>Hazardous Waste/CERCLA</u>			
Central Management	\$ 18,514	\$ 18,658	\$ 37,172
Planning, Prevention, & Assistance	161,122	160,891	322,013
Enforcement			0
Remediation	236,470	187,562	424,032
Permitting and Compliance	526,971	527,406	1,054,377
Total Hazardous Waste/CERCLA	<u>\$ 943,077</u>	<u>\$ 894,517</u>	<u>\$ 1,837,594</u>
<u>Environmental Quality Protection Fund (EQPF)</u>			
Central Management	\$ 849	\$ 856	\$ 1,705
Planning, Prevention, & Assistance			-
Enforcement			-
Remediation	1,099,998	803,197	1,903,195
Permitting and Compliance	-	-	-
Total EQPF	<u>\$ 1,100,847</u>	<u>\$ 804,053</u>	<u>\$ 1,904,900</u>

**LFD
ISSUE**

For a complete discussion of the RIT funds, see the Agency Overview section for the Department of Natural Resources and Conservation.

Database Conversions

The executive is requesting \$1.2 million over the 2005 to continue with a database conversion project that would upgrade current systems to more modern and compatible database standards. Of this total, \$185,000 would be funded through the department proprietary fund if the proposed rate is approved and \$1.0 million would be funded in HB 2. These increases are shown in Figure 4.

Figure 4
Department of Environmental Quality
Database Development/Maintenance
2005 Biennium

		Fiscal 2004					Fiscal 2005			
	DP#	Maint/ Develop	State Special	Federal	Proprietary	Total	State Special	Federal	Proprietary	Total
Program 10										
Central Management Program										
CMP Data Migration	67	Maint.			\$ 60,000	\$ 60,000			\$ 25,000	\$ 25,000
		Develop			40,000	40,000				-
One Stop Grant	88	Develop		500,000		500,000				
Database Development	72	Develop			50,000	50,000			10,000	10,000
Program 40										
Technical Services Bureau	71	Develop	23,500	36,500		60,000	23,500	36,500		60,000
Program 50										
Waste Management	69	Develop	50,000			50,000	50,000			50,000
PCD Database Maintenance	70	Maint.	<u>121,862</u>	<u>27,000</u>		<u>148,862</u>	<u>121,861</u>	<u>27,000</u>		<u>148,861</u>
Totals			<u>\$ 195,362</u>	<u>\$563,500</u>	<u>\$ 150,000</u>	<u>\$908,862</u>	<u>\$195,361</u>	<u>\$63,500</u>	<u>\$ 35,000</u>	<u>\$293,861</u>
Summary:										
Maintenance			\$ 121,862	\$ 27,000	\$ 60,000	\$208,862	\$121,861	\$27,000	\$ 25,000	\$173,861
Development			\$ 73,500	\$536,500	\$ 90,000	\$700,000	\$ 73,500	\$36,500	\$ 10,000	\$120,000

According to the department, development of this system will reduce the redundancy associated with maintaining several project-level databases and increase overall efficiency by centralizing many database maintenance tasks. Part of the vision of the completed system would include data exchanges with the EPA and other states. In addition, workers in any given part of the department would be able to access one database and receive the "total environmental picture" of an entity. For example, if an entity was seeking an air quality permit, the worker could pull up information on all of the entity's interactions with the department. Thus, the worker would look at one database to see if the entity has other permits, environmental violations, or on-going litigation.

In order to comply with Information Technology Act of 2001, the Montana Department of Environmental Quality has submitted its draft plan for information technology (IT) to the Information Technology Services Division of the Department of Administration for review.

LFD ISSUE

In addition to development costs, there will be on-going maintenance costs for upgrading, data conversion, and troubleshooting. Maintenance costs of \$382,723 are being requested in the 2005 biennium. These costs are on-going in nature and would have to be funded for the life of the database.

LFD COMMENT

The department has secured another "one-stop" grant for \$500,000 that it will use for database development. Some of the development is critical for communication with the EPA, while other portions should enhance functionality. Two key points that the legislature should know are: 1) there are always going to be "maintenance" costs; and 2) while federal funding sources like the "one-stop" grant are available in lieu of general fund, these can be short-term in nature.

Additional Programs for General Fund Reduction Consideration

As part of the ongoing effort to address the current budget shortfall in the general fund, the agency was asked to evaluate programs for inclusion on a three-part list of "core agency" programs, "important" programs, and "beneficial" programs. The following are beneficial programs that utilize general fund for a portion of program funding. According to the executive, these activities do not have the same public health and environmental protection implications for all citizens of the state and provide information, services, and projects to various groups of individuals. Behind each program is the department's priority rank out of twelve programs identified as beneficial.

Pollution Prevention Bureau, Business and Community Assistance (3)

The Bureau and Community Assistance program helps reduce the volume and toxicity of wastes disposed of in Montana, to find new markets and uses for materials that would otherwise be considered wastes, and to prevent pollution of air, land and water resources. In addition, assistance is provided to businesses on alternative processes and less toxic materials, and in developing new markets for recycling materials or goods manufactured with alternative materials. An example of a project the bureau has helped to develop is the Pay-As-You-Throw (PAYT) Program. This program is a fee-for-service program that allows residential and commercial customers to pay for the amount of waste they produce instead of paying a fixed fee or tax for solid waste services. PAYT creates a direct, economic incentive for citizens and businesses to reduce the amount of waste generated, and to increase recycling and composting activities.

The legislature may wish to consider the following:

- This program is not federally mandated.
- According to 75-10-803, MCA, the state has a goal to reduce the volume of solid waste generated by 25 percent by January 1, 1996. Although the state is about half way to this goal, it is clearly not in compliance with statutory goals.
- Program reductions could be sustained on a long-term basis through mitigation efforts such as prioritization of client services and training reductions.

Options (may require statutory changes):

- Eliminate the general fund support for this program for a reduction of \$176,700 over the biennium
- Eliminate the general fund support and direct the department to stop those program activities that were funded with general fund until another funding source is obtained
- Require entities seeking services to pay fees commensurate with actual program costs
- Do not eliminate general fund support for this program.

Major Facility Siting Act (MFSA) (4)

Under MFSA, the executive provides oversight of large fuel pipelines, large electrical transmission lines, and operation of major energy-related facilities. Services performed include inspections, calculations on reclamation bonds, and existing MFSA project oversight with 1.50 FTE providing pre-application consultation with potential applicants. If the consultation results in an application being filed, the department can recover costs. Applicants served include PP&L Montana (Colstrip 3 & 4, hydroelectric facilities), NorthWestern Energy (transmission lines), Bonneville Power Administration (transmission lines), Western Area Power Administration (transmission lines), Avista Corporation. (transmission and generation facilities), and Express Pipeline (oil).

The legislature may wish to consider the following:

- The MFSA is not a federally mandated program
- MFSA applications are received at irregular intervals
- According to the executive, the program receives general fund support to maintain a knowledgeable staff to respond in a timely manner when applications are filed, despite the irregularity
- No federal funding would be lost if the general fund is eliminated

Options (may require statutory changes):

- Eliminate the general fund support and eliminate the program for a reduction of \$310,857 over the biennium
- Eliminate the general fund support and raise fees to cover the all program costs
- Eliminate the general fund support and direct the department to stop program activities until another funding source is obtained
- Do not eliminate the general fund support and retain program activities

Federal Biomass Energy Program (9)

The Biomass Energy program is to encourage the use of biomass for alternative transportation fuels including ethanol and bio-diesel fuels and energy generation. This program assists in the commercial development of biomass (fast growing wood and other agriculture products that can be used to generate energy) as an energy resource option and includes applied research, development, and education. An example of a project includes the use of biodiesel, ten percent ethanol blend (E-10), and other renewable transportation fuels to increase transportation efficiency and reduce vehicle pollution in Montana, with special emphasis in Montana's Yellowstone National Park region.

The legislature may wish to consider the following:

- This is not a mandated service. DEQ is providing this service at the request of the federal government
- The federal government contributes to the cost of the program. If state accepts the federal dollars, the state must put up one-third of the funding as a match. Montana contributes \$25,000 general fund and matches \$50,000 of federal funds
- If the general fund match were to be eliminated, the result would be a loss or slowdown of services. If cash is not available, the department can meet matching requirements by providing in-kind services. For example, in-kind services might involve having a third-party complete a biomass project. The value of the project would then be applied to the state's one-third match and the federal authority would be retained
- Because in-kind services are more difficult to obtain than cash, services would be provided at a reduced level. This, in turn, would reduce the amount of the federal grant awarded to Montana and program activity would continue at a reduced level

Options

- Eliminate the general fund match of \$25,000 over the biennium, along with the entire program. The department would no longer receive authority for biomass projects
- Retain the program, eliminate the general fund match, and require the department to provide the funding match with in-kind services
- Do not eliminate the general fund match for the biomass program

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	8.00	0.00	3.00	11.00	0.00	3.00	11.00	11.00
Personal Services	340,851	76,286	146,801	563,938	75,720	146,421	562,992	1,126,930
Operating Expenses	132,484	663,262	1,126,324	1,922,070	43,223	(23,369)	152,338	2,074,408
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$473,335	\$739,548	\$1,273,125	\$2,486,008	\$118,943	\$123,052	\$715,330	\$3,201,338
General Fund	124,938	28,781	123,125	276,844	29,806	123,052	277,796	554,640
State/Other Special	182,767	169,844	1,150,000	1,502,611	46,609	0	229,376	1,731,987
Federal Special	165,630	540,923	0	706,553	42,528	0	208,158	914,711
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$473,335	\$739,548	\$1,273,125	\$2,486,008	\$118,943	\$123,052	\$715,330	\$3,201,338

Program Description

The Central Management Division consists of the Director's Office, a Financial Services Office, and an Information Technology Office. It is the organizational component of the agency that is responsible and accountable for the administration, management, planning, and evaluation of agency performance in carrying out department mission and statutory responsibilities. The Director's Office includes the director's staff, the deputy director, an administrative officer, public information officer, a centralized Legal Services Unit, and a centralized Personnel Office. The Financial Services Office provides budgeting, accounting, payroll, procurement, and contract management support to other divisions. The Information Technology Office provides information technology services support to other divisions.

Program Narrative

Central Management Division Major Program Highlights	
○ The executive secured federal funding for database development ○ The executive is requesting a 23 percent overhead rate	
Major LFD Issues	
○ Federal funding for database development is one-time in nature ○ Re-earmarking of fine, fee, and penalty revenue does not have a general fund savings ○ Statute would have to be changed to accommodate re-earmarking	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Central Management Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 124,938	26.4%	\$ 276,844	11.1%	\$ 277,796	38.8%
02070 Hazardous Waste-Cercla	14,883	3.1%	18,514	0.7%	18,658	2.6%
02075 Ust Leak Prevention Program	7,897	1.7%	9,852	0.4%	9,928	1.4%
02097 Environmental Rehab & Response	-	-	125,000	5.0%	-	-
02157 Solid Waste Management Fee	8,893	1.9%	11,097	0.4%	11,183	1.6%
02162 Environmental Quality Protecti	669	0.1%	849	0.0%	856	0.1%
02201 Air Quality-Operating Fees	47,560	10.0%	59,168	2.4%	59,627	8.3%
02204 Public Drinking Water	4,303	0.9%	5,379	0.2%	5,420	0.8%
02206 Agriculture Monitoring	344	0.1%	452	0.0%	457	0.1%
02278 Npdes Permit Program	42,512	9.0%	52,940	2.1%	53,351	7.5%
02291 Operator Training Acct/Penalti	-	-	150,000	6.0%	-	-
02418 Subdivision Plat Review	23,725	5.0%	29,556	1.2%	29,785	4.2%
02428 Major Facility Siting	-	-	1,000,000	40.2%	-	-
02458 Reclamation & Development	29,042	6.1%	36,124	1.5%	36,403	5.1%
02845 Junk Vehicle Disposal	2,939	0.6%	3,680	0.1%	3,708	0.5%
03033 Energy/Fsd	6,079	1.3%	7,587	0.3%	7,646	1.1%
03067 Dsl Federal Reclamation Grant	12,721	2.7%	15,853	0.6%	15,976	2.2%
03100 Epa / Drinking Water Srf	3,030	0.6%	3,794	0.2%	3,824	0.5%
03228 L.U.S.T./Trust	5,074	1.1%	6,341	0.3%	6,391	0.9%
03249 Nps Implementation Grant	24,662	5.2%	30,690	1.2%	30,930	4.3%
03262 Epa Ppg	111,782	23.6%	139,455	5.6%	140,537	19.6%
03302 Wetlands Grant	2,282	0.5%	2,833	0.1%	2,854	0.4%
03385 Epa/One Stop Program	-	-	500,000	20.1%	-	-
Grand Total	\$ 473,335	100.0%	\$ 2,486,008	100.0%	\$ 715,330	100.0%

The primary functions of this division are funded with proprietary funds (non-budgeted) and are not appropriated in HB 2. As shown in the following figure, the largest funding source in this division is derived from the major facility sitting and is a result of a program reorganization (see discussion in Agency Overview). Other major funding in HB 2 consists of general fund, various operating and permitting fees, and federal EPA grants. A discussion of the proposed proprietary rates to support the function follows.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				93,179					92,588	
Vacancy Savings				(17,363)					(17,338)	
Inflation/Deflation				573					573	
Fixed Costs				7,136					8,124	
Total Statewide Present Law Adjustments				\$83,525					\$83,947	
DP 1 - Board of Environmental Review Adjustments	0.00	2,870	0	0	2,870	0.00	2,870	0	0	2,870
DP 3 - Attorney Pool Base Adjustments	0.00	10,892	18,776	17,039	46,707	0.00	11,819	20,372	18,489	50,680
DP 75 - Attorney Pool Alternative Payplan Adjustment	0.00	(4,327)	(7,460)	(6,767)	(18,554)	0.00	(4,327)	(7,460)	(6,767)	(18,554)
DP 79 - Environmental Rehabilitation & Response Account	0.00	0	125,000	0	125,000	0.00	0	0	0	0
DP 88 - Restore OTO - Federal One Stop Grant	0.00	0	0	500,000	500,000	0.00	0	0	0	0
Total Other Present Law Adjustments				0.00	\$9,435	\$136,316	\$510,272	\$656,023	0.00	\$10,362
Grand Total All Present Law Adjustments				\$739,548					\$118,943	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Board of Environmental Review Adjustments - The Executive Budget includes a request for a base adjustment to the Board of Environmental Review (BER). The executive anticipates the BER hearings officer will have an increased workload in the upcoming biennium. The increased costs are not program specific and would be charged to the BER portion of the budget. The executive also anticipates increased travel costs due to the location of some of the board members. The increase to personal services is for increased board per diem. No FTE are associated with these costs.

LFD ISSUE

For further discussion, please see agency-wide issue regarding base adjustments.

DP 3 - Attorney Pool Base Adjustments - The Executive Budget includes a request for funding to provide centralized management of legal services. In fiscal 2002, the executive moved 8.00 FTE attorney positions and related operations funding from Programs 20, 30, and 50 to Program 10 creating an attorney pool within the Legal Services unit of the Director's Office. This reorganization assisted the attorney supervisor in managing and monitoring the attorney pool budget and expenditures. Due to staff vacancies, base adjustments are being requested for expenditure categories not fully spent. These categories include other legal, temporary services, printing and photocopying, books and reference materials, postage, phones, education and training, dues and subscriptions, and indirect costs.

LFD ISSUE

For further discussion, please see agency-wide issue regarding base adjustments.

DP 75 - Attorney Pool Alternative Payplan Adjustment - The Executive Budget includes a request for the alternative pay plan (pay plan 20) adjustments for the attorney pool. This is a reduction to operating costs to cover the increased personal

services costs due to the move to pay plan 20.

**LFD
ISSUE**

See department wide issue on costs associated with the move to pay plan 20

DP 79 - Environmental Rehabilitation & Response Account - The Executive Budget includes a request for a biennial base adjustment to the environmental rehabilitation and response account (ERRA) established in SB 449 of the 2001 legislative session. Upon appropriation, money in the new account is available to DEQ for reclamation of mined lands, remediation of sites containing hazardous wastes or substances, and for response to imminent threats of substantial harm to public health, safety, or the environment when funding is not available from the Environmental Contingency Account.

DP 88 - Restore OTO - Federal One Stop Grant - The Executive Budget includes a request to restore a one time only biennial appropriation of \$500,000 federal grant funds. This grant is furnished to states that have demonstrated an initiative and the capability to further the goals of the Environmental Protection Agency (EPA) for information technology. The goals of the one-stop program are to consolidate data, catalogue regulated entities, and provide for data sharing with other government agencies and the public. This grant would provide the executive with additional resources to enhance on-going data conversions of air, water, and waste databases into a department enterprise database. This is a one-time-only grant from EPA.

**LFD
COMMENT**

Due to the one-time nature of this grant, the legislature may wish to designate any appropriation as one-time-only in nature.

New Proposals		Fiscal 2004					Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
DP 200 - 10 MEPA Reorg from Prg 50											
10	3.00	123,125	1,000,000	0	1,123,125		3.00	123,052	0	0	123,052
DP 8013 - Legal Contingency & Database Development											
10	0.00	0	150,000	0	150,000		0.00	0	0	0	0
Total	3.00	\$123,125	\$1,150,000	\$0	\$1,273,125		3.00	\$123,052	\$0	\$0	\$123,052

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 200 - 10 MEPA Reorg from Prg 50 - The Executive Budget includes a request for an agency reorganization that would move the Montana Environmental Protection Act (MEPA) program to the Central Management Division. If approved, the move would consist of 3.00 FTE and associated operating costs.

DP 8013 - Legal Contingency & Database Development - The Executive Budget includes a request for a funding switch from general fund to state special revenue. In addition, the executive is proposing a statutory change to allow penalty revenue from numerous environmental laws administered by the department to be deposited into a state special revenue account (02291) to fund legal contingencies and database development. As proposed, the funding would be used primarily to pay legal fees in the event the department was ordered to pay another party's legal fees in the event the department lost a legal action and for legal actions to defend the department. Secondary in nature, the department would use the funding to enhance database development within the department. Currently, state statutes require that administrative and civil penalties be deposited into the general fund.

The decision package is contingent upon passage of legislation and would, in part, amend the following statutes:

- Asbestos Control Act [MCA 75-2-514, 75-2-515]
- Hazardous Waste Management Act [MCA 75-10-417, 75-10-418, 75-10-424]
- Motor Vehicle Recycling and Disposal Act [MCA 75-10-542]
- Public Water Supply Law [MCA 75-6-114, 75-6-109]
- Strip and Underground Mine Reclamation Act [MCA 82-4-241]
- Underground Storage Tank Act [MCA 75-10-525, 75-11-516]
- Sanitations in Subdivisions Act [MCA 76-4-109]
- Water Quality Act [MCA 75-5-634]

LFD ISSUE

As proposed, this request would utilize revenue sources derived from fines, fees, and penalties that are de-earmarked to the general fund. When a funding source derives income from fines, fees, or penalties, the legislature routinely reviews these funds to determine if they are candidates for de-earmarking under 17-1-505, MCA. Historically, this has been done to avoid directly funding enforcement activities with fines. When these funding sources are de-earmarked, the department has the opportunity to seek a general fund appropriation for these purposes.

If the legislature chooses to approve this appropriation, it should be aware that no general fund would be saved. Although a general fund appropriation would not be sought, a similar amount of general fund would be diverted into the state special revenue fund for the same purpose. Thus, even though the funding appears to come from state special revenue, the revenues to the general fund are reduced.

In the case of legal contingencies, these diversions would be the only funding source. Thus, the funding level could be capped and spending could be restricted for that purpose. Adding database development as an alternate use complicates the primary use of the fund. Database development is funded from a variety of funding sources throughout the department, including general fund. Allowing the department to spend a portion of this money on database development amounts to an expansion of that project. Since the proposed funding source ultimately comes from general fund, any expenditure for the purpose of database development would be, in effect, spending from the general fund.

The legislature may wish to:

Options

- Restrict spending to legal contingencies and cap the level of funding to ensure legal contingencies are met with any excess diverted back to the general fund
- Allow spending on database development but restrict spending to a percentage of the fund revenue or a fixed dollar amount
- Do not approve the decision package

Proprietary Rates

Program Description

The Central Management Program consists of the Director's Office, a Financial Services Office, and an Information Technology Office. It is the organizational component of the agency that is responsible and accountable for the administration, management, planning, and evaluation of agency performance in carrying out department mission and statutory responsibilities. The Director's Office includes the director's staff, the deputy director, an administrative officer, public information officer, a centralized legal services unit, and a centralized personnel office. The Financial Services Office provides budgeting, accounting, payroll, procurement and contract management support to other divisions. The Information Technology Office provides information technology services support to other divisions.

The centralized Legal Services Unit has 3.00 FTE that are funded by the internal service fund, two attorneys and one paralegal. This staff provides the administration, management, and planning for the legal services unit, and specific duties for department programs, including legislation, rule making, enforcement actions, and contract review. The remainder of this unit is funded by direct charges to the programs and projects requiring the legal work.

Customers are all divisions and employees of the Department of Environmental Quality. Use of these services is

mandated by agency policies and procedures. There are no alternative sources for the Central Management Program as a whole. The department contracts for legal services whenever it is cost effective to do so; to obtain specific expertise for a case; or when legal jurisdiction of the case requires an attorney licensed in that state. In addition, the department contracts for information technology database development and for hosting of the department's enterprise database.

Revenues and Expenses

The department has one proprietary fund, which is an internal service fund used to account for the department's indirect cost activity. The department anticipates negotiating an indirect cost rate with the U.S. Environmental Protection Agency (EPA) of approximately 23 percent in fiscal years 2004 and 2005. Revenues generated by the current indirect cost rate fund 50.50 FTE.

Central Management Program provides the services presented in the program description. The cost of providing support services is directly related to the number of staff served. The department annually negotiates an indirect rate with EPA based on that computation. Adjustments for over-recovery and under-recovery in the previous year are made to the calculations each year. EPA and DEQ agree to the services that are included in the indirect calculation. Funding is collected from all non-proprietary sources expended within the department. Fiscal 2002 collections were: \$462,818 in general fund, \$1,396,273 in state special revenue, and \$1,255,469 in federal revenue.

Expense Description

The major cost drivers within this program are personal services and fixed costs. Fixed costs, especially tort liability coverage, continue to be a significant cost increase to the proprietary fund. The cost of providing support services is directly related to the number of staff served. Therefore, future expenses are determined by projecting increases or decreases in program staff. Non-typical and one-time expenses are backed out of the cost of providing services before calculating the indirect rate. Salaries are constant throughout the fiscal year, except during fiscal year end, executive budget preparation, and legislative session. The indirect rate proposed to the legislature would fund 51.50 FTE.

Working Capital

The fund normally carries a 60-day working capital to meet its immediate cash needs for covering payroll and various operating costs.

Fund Equity

Due to timing factors, the fund balance does not always equal zero.

Rate Explanation

The department negotiates an annual indirect cost rate with EPA. The approved rate is a fixed rate. This rate is applied against personal services, temporary services and work-study contracts charged within each division of the department, other than the Central Management Program.

The executive is requesting a decrease in the indirect cost rate from 24 percent approved in the last legislative session to 23 percent. The rate negotiated with EPA requires a carry-forward amount be built into the rate. This carry-forward amount represents the amount the department either under-recovered or over-recovered in a given year. This computation compares what was initially negotiated versus what actually occurred. The difference is then carried forward into the following year's rate.

The indirect cost rate is determined based on guidelines prescribed by the federal government. In addition, the department complies with 17-3-111, MCA, which requires agencies to negotiate a rate that would recover indirect costs to the fullest extent possible. In order to comply with this law, the department has requested a rate that may vary slightly from the rate the department actually negotiates with EPA. The rate approved by the legislature is considered a cap; and therefore, the department cannot negotiate for a rate higher than what has been approved by the legislature. However, the rate negotiated with EPA may be slightly lower.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06509	DEQ Indirect Cost Pool	53010	Dept. of Environmental Quality	Management

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Revenue from State Services (520501)	-	-	-	2,116,764	1,878,717	1,993,619
Net Fee Revenue	1,542,997	1,435,570	1,913,545	2,116,764	1,878,717	1,993,619
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	8,502	5,419	433	-	-	-
Total Operating Revenues	1,551,499	1,440,989	1,913,978	2,116,764	1,878,717	1,993,619
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	1,551,499	1,440,989	1,913,978	2,116,764	1,878,717	1,993,619
Operating Expenses:						
Personal Services	1,679,310	1,777,179	2,053,835	2,310,494	2,477,750	2,476,126
Other Operating Expenses	748,094	694,398	943,264	1,078,396	1,593,107	1,420,900
Miscellaneous, operating	39,698	43,606	44,171	0	0	0
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	2,467,102	2,515,183	3,041,270	3,388,890	4,070,857	3,897,026
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	2,467,102	2,515,183	3,041,270	3,388,890	4,070,857	3,897,026
Operating Income (Loss)	(915,603)	(1,074,194)	(1,127,292)	(1,272,126)	(2,192,140)	(1,903,407)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(17,388)	-	-	-	-
Federal Indirect Cost Recoveries	1,079,577	1,042,820	1,291,779	1,532,155	2,243,476	2,187,275
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	1,079,577	1,025,432	1,291,779	1,532,155	2,243,476	2,187,275
Income (Loss) Before Operating Transfers	163,974	(48,762)	164,487	260,029	51,336	283,868
Contributed Capital	270,708	270,708	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	15,918	180,488	402,434	566,921	826,950	878,286
Net Income (Loss)	434,682	221,946	164,487	260,029	51,336	283,868
Retained Earnings/Fund Balances - June 30	450,600	402,434	566,921	826,950	878,286	1,162,154
60 days of expenses (Total Operating Expenses divided by 6)	411,184	419,197	506,878	564,815	678,476	649,504

Fee/Rate Information for Legislative Action:

Requested Rates for Internal Service Funds

-----Estimated-----

20.70%	20.30%	22 15%	21.91%	23.00%	23.00%
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Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	96.58	1.00	1.00	98.58	1.00	1.00	98.58	98.58
Personal Services	3,543,033	1,011,279	49,074	4,603,386	1,005,268	48,927	4,597,228	9,200,614
Operating Expenses	6,062,375	2,116,364	21,446	8,200,185	2,075,064	21,412	8,158,851	16,359,036
Equipment	49,573	34,713	0	84,286	34,713	0	84,286	168,572
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$9,654,981	\$3,162,356	\$70,520	\$12,887,857	\$3,115,045	\$70,339	\$12,840,365	\$25,728,222
General Fund	1,802,567	76,411	0	1,878,978	59,124	0	1,861,691	3,740,669
State/Other Special	830,747	462,089	0	1,292,836	466,549	0	1,297,296	2,590,132
Federal Special	7,021,667	2,623,856	70,520	9,716,043	2,589,372	70,339	9,681,378	19,397,421
Total Funds	\$9,654,981	\$3,162,356	\$70,520	\$12,887,857	\$3,115,045	\$70,339	\$12,840,365	\$25,728,222

Program Description

The division: 1) finances construction and improvement of community drinking water and wastewater systems, and provides engineering review and technical assistance to community water infrastructure planners and officials; 2) provides assistance to small businesses in their efforts to comply with environmental regulations; 3) monitors air and water quality conditions and trends, assesses sources and severity of potential pollution problems, and aids industry efforts to achieve cost effective compliance; 4) assists local community efforts in planning for energy, watershed, airshed, and solid and hazardous waste management; 5) helps develop water total maximum daily loads; 6) coordinates department positions on environmental legislation, proposes rules and policy, and develops environmental protection criteria; 7) provides economic modeling and analysis to assess the cost effectiveness of various environmental programs; 8) finances energy retrofits of public buildings; and 9) provides technical assistance, education and outreach to builders, homeowners, and others on energy efficiency and renewable energy, indoor air quality and radon. The division consists of four bureaus: Monitoring and Data Management, Pollution Prevention, Resource Protection Planning, and Technical and Financial Assistance.

Program Narrative

Planning Prevention and Assistance Division	
Major Program Highlights	
- o Requesting decreases to fund pay raises given as part of the move to pay plan 20 - o Requesting base adjustments, many of which are due to vacant positions	
Major LFD Issues	
- o Some pay plan 20 adjustments would be short-term in nature - o Number of base adjustments should decrease if pay increases associated with the move to pay plan 20 improve recruitment and retention efforts	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Plan.Prevent. & Assist.Div.						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,802,567	18.7%	\$ 1,878,978	14.6%	\$ 1,861,691	14.5%
02070 Hazardous Waste-Cercla	131,705	1.4%	161,122	1.3%	160,891	1.3%
02157 Solid Waste Management Fee	59,209	0.6%	80,306	0.6%	80,140	0.6%
02201 Air Quality-Operating Fees	417,872	4.3%	631,560	4.9%	623,557	4.9%
02203 Arco	25,339	0.3%	25,339	0.2%	25,339	0.2%
02206 Agriculture Monitoring	4,056	0.0%	4,648	0.0%	4,647	0.0%
02278 Npdes Permit Program	76,937	0.8%	82,517	0.6%	82,465	0.6%
02316 Go94B/Ban 93D Admin	56,265	0.6%	70,138	0.5%	82,728	0.6%
02388 Misc. State Special Revenue	58,957	0.6%	81,464	0.6%	81,618	0.6%
02555 Deq Alternative Energy	407	0.0%	59,883	0.5%	60,052	0.5%
02973 Univ System Benefits Program	-	-	95,859	0.7%	95,859	0.7%
03007 Doe Special Projects	67,194	0.7%	215,138	1.7%	213,944	1.7%
03033 Energy/Fsd	508,135	5.3%	859,351	6.7%	867,707	6.8%
03070 Tmdl	205,618	2.1%	-	-	-	-
03100 Epa / Drinking Water Srf	627,190	6.5%	-	-	-	-
03210 Ambient Air Amonitoring (Pm-2.5)	233,015	2.4%	283,190	2.2%	283,878	2.2%
03231 Drinking Water Srf Ffy 01	177,920	1.8%	-	-	-	-
03232 Drinking Water Srf Ffy 00	204,506	2.1%	-	-	-	-
03245 Wastewater Treatment Grant	281,416	2.9%	349,851	2.7%	412,647	3.2%
03249 Nps Implementation Grant	2,821,466	29.2%	3,391,072	26.3%	3,389,239	26.4%
03262 Epa Ppg	1,138,028	11.8%	2,270,713	17.6%	2,189,758	17.1%
03302 Wetlands Grant	344,713	3.6%	430,580	3.3%	430,558	3.4%
03608 Nutrient Criteria Pilot Project	76,696	0.8%	80,765	0.6%	80,765	0.6%
03667 Tmdl Supplemental	-	-	370,000	2.9%	370,000	2.9%
03687 Dw-Fy02	-	-	1,021,884	7.9%	1,026,745	8.0%
03695 Srfst Tribal Agrmt Grant	-	-	70,520	0.5%	70,339	0.5%
03814 Epa Water Quality 205J	94,742	1.0%	160,360	1.2%	160,730	1.3%
03815 Epa-Construction Grants	77,770	0.8%	-	-	-	-
03817 Deq Emap	76,532	0.8%	128,467	1.0%	101,046	0.8%
03818 Tmdl Special Projects	20,000	0.2%	40,000	0.3%	40,000	0.3%
03952 Epa-Srf-Dw 1998 Grant	69,199	0.7%	-	-	-	-
03953 Drinking Water Srf 99	(2,473)	0.0%	-	-	-	-
03966 Mdot-Stip/Tmdl	-	-	44,152	0.3%	44,022	0.3%
Grand Total	\$ 9,654,981	100.0%	\$ 12,887,857	100.0%	\$ 12,840,365	100.0%

This division is funded from general fund and numerous sources of state and federal special revenue. Specific funding sources for the division are shown in the following. The primary state special revenue funding sources are from air quality operating permit fees set by the Board of Environmental Quality according to 75-2-220, MCA, and 22.0 percent of interest earnings from the resource indemnity trust deposited in the Hazardous Waste/CERCLA account. This division accounts for 52.8 percent of the department's general fund request in the 2005 biennium.

The largest federal funding sources are:

- o EPA performance partnership grant, which is a block grant to fund a wide-range of environmental activities
- o Non-point source pollution control funding, a portion of which is used to fund the TMDL program
- o EPA funding from the clean water action plan for non-point source pollution control
- o Administrative costs for the drinking water state revolving fund

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				1,340,881					1,334,734	
Vacancy Savings				(195,365)					(195,106)	
Inflation/Deflation				5,942					7,154	
Fixed Costs				87,134					99,286	
Total Statewide Present Law Adjustments				\$1,238,592					\$1,246,068	
DP 4 - RPPB Budget Adjustment	0.00	40,634	101,705	624,539	766,878	0.00	(24,077)	98,934	685,455	760,312
DP 5 - RPPB Alternative Payplan Adjustments	0.00	(101,772)	0	(19,592)	(121,364)	0.00	(101,772)	0	(19,592)	(121,364)
DP 6 - MDMB Base Adjustments	0.00	130,430	18,445	519,739	668,614	0.00	126,653	18,182	479,736	624,571
DP 7 - MDMB Alternative Payplan Adjustments	0.00	(18,736)	(11,153)	(39,113)	(69,002)	0.00	(18,736)	(11,153)	(39,113)	(69,002)
DP 8 - TFAB Budget Adjustments	0.00	(47,701)	70,895	365,394	388,588	0.00	(47,764)	71,785	362,986	387,007
DP 9 - PPB Base Adjustments	0.00	7,415	27,094	(45,292)	(10,783)	0.00	7,415	26,850	(42,114)	(7,849)
DP 10 - PPB Alternative Payplan Adjustments	0.00	0	(20,237)	(35,819)	(56,056)	0.00	0	(20,237)	(35,819)	(56,056)
DP 11 - Administration FTE and Adjustments	0.00	(25,357)	21,918	11,619	8,180	0.00	(30,745)	21,896	11,498	2,649
DP 12 - TFAB Alternative Payplan Adjustment	0.00	(1,250)	(11,271)	(108,770)	(121,291)	0.00	(1,250)	(11,271)	(108,770)	(121,291)
DP 43 - TMDL Supplemental Grant	1.00	0	0	370,000	370,000	1.00	0	0	370,000	370,000
DP 60 - TFAB - Universal System Benefits Charge	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
Total Other Present Law Adjustments										
	1.00	(\$16,337)	\$297,396	\$1,642,705	\$1,923,764	1.00	(\$90,276)	\$294,986	\$1,664,267	\$1,868,977
Grand Total All Present Law Adjustments				\$3,162,356					\$3,115,045	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 4 - RPPB Budget Adjustment - The Executive Budget includes a request to re-establish the base budget for the Resource Protection and Planning Bureau. If approved, funding would be restored in several areas including the Governor's general fund reduction, federal grant funding switches, and operations funding for 5.00 FTE vacant in fiscal 2002. If approved, this DP would complete a funding switch of \$100,000 from general fund to federal funds.

LFD ISSUE

For further discussion, please see agency-wide issue regarding base adjustments.

DP 5 - RPPB Alternative Payplan Adjustments - The Executive Budget includes a request to fund pay increases associated with a department-wide move to pay plan 20. To fund the pay increases, the department will reassign vacant positions.

LFD ISSUE

This program proposes to reassign a vacant position so that funding would be from fees rather than general fund. However, funding the alternative pay plan in this way tends to be short-term in nature. Please see agency wide issues related to the move to pay plan 20.

DP 6 - MDMB Base Adjustments - The Executive Budget includes a request to re-establish the base budget for the Monitoring and Data Management Bureau. 6 FTE were vacant during much of fiscal 2002 and this request would fund under-expended operating expenses related to these positions. The executive is expecting a full staff in the 2005 biennium.

**LFD
ISSUE**

For further discussion, please see agency-wide issue regarding base adjustments.

DP 7 - MDMB Alternative Payplan Adjustments - The Executive Budget includes a request to fund pay increases associated with a department-wide move to pay plan 20. To fund these activities, the department is planning on purchasing less air monitoring equipment, delaying the hiring of FTE, and decreasing contracted services.

**LFD
ISSUE**

This program proposes to delay hiring positions to fund pay plan 20 increases. Although reductions are made, funding the alternative pay plan in this way tends to be short-term in nature. Please see agency wide issues related to the move to pay plan 20.

DP 8 - TFAB Budget Adjustments - The Executive Budget includes a request to re-establish the base budget for the Technical and Financial Assistance Bureau. 4 FTE were vacant for part of fiscal 2002 resulting in expenditures below budget levels. In addition, contracted services were under-spent. If approved this base adjustment would restore these operating expenses.

**LFD
ISSUE**

For further discussion, please see agency-wide issue regarding base adjustments.

DP 9 - PPB Base Adjustments - The Executive Budget includes a request to re-establish the base budget for the Pollution Prevention Bureau. The request includes a decrease in revenue for the Source Water Protection Program and a corresponding decrease in contracts that will be issued in fiscal 2004 and fiscal 2005 for this activity. In addition to the decrease, 2.00 FTE were vacant for part of fiscal 2002. Increases are requested in operating expenses for these vacancies in the categories of supplies, communications, travel and other services. If approved, all adjustments would result in a net decrease for the Pollution Prevention Bureau.

**LFD
ISSUE**

For further discussion, please see agency-wide issue regarding base adjustments.

DP 10 - PPB Alternative Payplan Adjustments - The Executive Budget includes a request to fund pay increases associated with a department-wide move to pay plan 20. To fund these activities, the department is planning on delaying the hiring of FTE and not hiring interns.

**LFD
ISSUE**

This program proposes to delay hiring positions to fund pay plan 20 increases. Although reductions are made, funding the alternative pay plan in this way tends to be short-term in nature. Please see agency-wide issues related to the move to pay plan 20.

DP 11 - Administration FTE and Adjustments - The Executive Budget includes a request to re-establish the base budget for the Administrative and Fiscal Unit. The Fiscal Unit experienced the turnover of several positions during fiscal 2002. In addition, to implement targeted general fund reductions, three adjustments would be made: 1) a funding switch from general fund to state special revenue for division management and fiscal support functions -- \$20,000; 2) eliminate one vacant accounting technician position (555); and 3) eliminate \$25,000 of general fund used to match federal funds for special projects.

**LFD
ISSUE**

For further discussion, please see agency-wide issue regarding base adjustments.

DP 12 - TFAB Alternative Payplan Adjustments - The Executive Budget includes a request to fund pay increases associated with a department-wide move to pay plan 20. To fund these activities, the department is planning on delaying the hiring of FTE, reducing contracted services, and reducing purchase of minor equipment.

**LFD
ISSUE**

This program proposes to delay hiring positions to fund pay plan 20 increases. Although reductions are made, funding the alternative pay plan in this way tends to be short-term in nature. Please see agency wide issues related to the move to pay plan 20.

DP 43 - TMDL Supplemental Grant - The Executive Budget includes a request for authority to spend EPA grant funds to assist meeting court-mandated total maximum daily loads (TMDLs) schedules. The EPA is expected to direct \$370,000 of funding to the executive to improve completion of and to meet the court-mandated TMDL schedule for Montana. This funding comes without match requirements, and would be used to fund 1.00 FTE TMDL position. The majority of funding would be used for contracted services because the workload to comply with the federal district court schedule exceeds the capabilities projected of a fully staffed program.

DP 60 - TFAB - Universal System Benefits Charge - The Executive Budget includes a request for biennial appropriation authority that would be used for renewable energy development. The legislature established a Universal System Benefit (USB) Charge to fund social benefits such as low-income energy assistance, weatherization, energy efficiency, and renewable energy development that may not be funded through the market place. USB charges are collected from end customers by Northwestern Energy (formerly Montana Power Company) and Montana Dakota Utilities (MDU). According to statute, any unspent funds are allocated annually to DEQ to be used for qualifying public services. The executive anticipates receiving unspent funds from MDU and this request would serve as a placeholder should this occur.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 62 - TFAB STAG Grant										
20	1.00	0	0	70,520	70,520	1.00	0	0	70,339	70,339
Total	1.00	\$0	\$0	\$70,520	\$70,520	1.00	\$0	\$0	\$70,339	\$70,339

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 62 - TFAB STAG Grant - The Executive Budget includes a request to add 1.00 FTE to provide technical assistance to community water and wastewater systems. If approved, this proposal would fund 1.00 FTE in federal funds for the 2005 biennium to administer the EPA's State Tribal Assistance Grant (STAG) program projects. EPA's goal is to have states

integrate management of the State Revolving Fund (SRF) programs with the oversight of the special STAG projects. These special STAG projects would help address water and wastewater public facility needs in Montana. The executive received the funding to provide project management and technical assistance for the design, construction, and operation of public water and wastewater facilities funded with STAG monies over a period of approximately five years (fiscal 2003 through fiscal 2007).

Language Recommendations

Transfer Between Fund Types

The executive recommends language in HB 2 that would allow the agency to transfer funding between fund types when certain conditions are met.

"The department is authorized to decrease federal special revenue money in the water pollution control and/or drinking water revolving fund loan programs and increase state special revenue money by a like amount within the special administration account when the amount of federal capitalization funds have been expended or federal funds and bond proceeds will be used for other program purposes."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	14.00	0.00	0.00	14.00	0.00	0.00	14.00	14.00
Personal Services	606,481	62,518	0	668,999	61,393	0	667,874	1,336,873
Operating Expenses	263,667	26,397	0	290,064	35,582	0	299,249	589,313
Total Costs	\$870,148	\$88,915	\$0	\$959,063	\$96,975	\$0	\$967,123	\$1,926,186
General Fund	464,433	15,256	(65,000)	414,689	18,866	(65,000)	418,299	832,988
State/Other Special	142,824	16,115	55,000	213,939	18,147	55,000	215,971	429,910
Federal Special	262,891	57,544	10,000	330,435	59,962	10,000	332,853	663,288
Total Funds	\$870,148	\$88,915	\$0	\$959,063	\$96,975	\$0	\$967,123	\$1,926,186

Program Description

The Enforcement Division is the central control for activities designed to facilitate the enforcement of the statutes and regulations administered by the department. The division develops department enforcement policies and procedures for approval by the director and ensures they are implemented in a consistent manner across the department. In addition, the division maintains a citizen complaint clearinghouse and information tracking system. The division coordinates the legal and technical aspects of enforcement cases, both administrative and judicial, and monitors violators to determine compliance with department orders.

Program Narrative

Enforcement Division Major Program Highlights	
Proposing legislation to re-earmark fine, fee, and penalty revenue	
Major LFD Issues	
- Reclamation and Development is used as a funding source, which is projected to have a significant negative balance at the end of the 2005 biennium - Re-earmarked funds do not create a general fund decrease	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Enforcement Division						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 464,433	53.4%	\$ 414,689	43.2%	\$ 418,299	43.3%
02075 Ust Leak Prevention Program	45,597	5.2%	49,599	5.2%	49,975	5.2%
02162 Environmental Quality Protecti	3,934	0.5%	-	-	-	-
02201 Air Quality-Operating Fees	47,450	5.5%	105,869	11.0%	106,252	11.0%
02204 Public Drinking Water	11,519	1.3%	20,720	2.2%	21,709	2.2%
02278 Npdes Permit Program	30,520	3.5%	33,037	3.4%	33,286	3.4%
02458 Reclamation & Development	3,804	0.4%	4,714	0.5%	4,749	0.5%
03067 Dsl Federal Reclamation Grant	16,465	1.9%	17,303	1.8%	17,434	1.8%
03228 L.U.S.T./Trust	29,825	3.4%	36,127	3.8%	36,399	3.8%
03249 Nps Implementation Grant	44,223	5.1%	52,701	5.5%	53,099	5.5%
03262 Epa Ppg	172,378	19.8%	224,304	23.4%	225,921	23.4%
Grand Total	\$ 870,148	100.0%	\$ 959,063	100.0%	\$ 967,123	100.0%

This division is funded primarily with general fund and federal funds, with various state special revenue sources that are used for enforcement activity.

**LFD
ISSUE**

This program proposes to use a Resource Indemnity Trust (RIT) funding source (reclamation and development account). This account is projected to have a significant negative ending balance for the 2005 biennium. For a further discussion of RIT funding sources, please see the RIT discussion in the agency overview section of the Department of Natural Resources and Conservation.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					90,394					89,219
Vacancy Savings					(27,876)					(27,826)
Inflation/Deflation					708					1,491
Fixed Costs					2,923					4,566
Total Statewide Present Law Adjustments					\$66,149	\$67,450				
DP 13 - Enforcement Budget Adjustments	0.00	35,812	11,435	23,873	71,120	0.00	38,776	12,381	25,848	77,005
DP 14 - Enforcement Alternative Payplan	0.00	(27,088)	(8,651)	(18,059)	(53,798)	0.00	(27,088)	(8,651)	(18,059)	(53,798)
DP 73 - Enforcement Lease Vehicle	0.00	0	5,444	0	5,444	0.00	0	6,318	0	6,318
Total Other Present Law Adjustments										
	0.00	\$8,724	\$8,228	\$5,814	\$22,766	0.00	\$11,688	\$10,048	\$7,789	\$29,525
Grand Total All Present Law Adjustments					\$88,915	\$96,975				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 13 - Enforcement Budget Adjustments - The Executive Budget includes a request for a base adjustment to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. This adjustment would be used to fund database conversion, operation, and maintenance that was not completed in fiscal 2002 and fiscal 2003, legal service fees, and contested enforcement cases. Additional funds are also requested to fund indirect charges due to a prior year adjustment of \$8,381 that was not reflected in the fiscal 2002 base.

**LFD
ISSUE**

For further discussion, please see agency-wide issue regarding base adjustments.

**LFD
ISSUE**

This program proposes to use a Resource Indemnity Trust (RIT) funding source (reclamation and development account). This account is projected to have a significant negative ending balance for the 2005 biennium. For a further discussion of RIT funding sources, please see the RIT discussion in the agency overview section of the Department of Natural Resources and Conservation.

DP 14 - Enforcement Alternative Payplan - The Executive Budget includes a request to fund pay increases associated with a department-wide move to pay plan 20. According to the executive, out of state travel will be eliminated, database contracted services and minor supply purchases will be reduced to fund the pay plan.

**LFD
ISSUE**

Please see agency wide issues related to the move to pay plan 20.

DP 73 - Enforcement Lease Vehicle - The Executive Budget includes a request for a lease vehicle for the Enforcement Division. If approved, this proposal would replace an owned vehicle with a leased vehicle.

**LFD
ISSUE**

For further discussion, please see agency-wide issue regarding base adjustments.

New Proposals -----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 8013 - Enforcement Reduction & Fund Switch										
30	0.00	(65,000)	55,000	10,000	0	0.00	(65,000)	55,000	10,000	0
Total	0.00	(\$65,000)	\$55,000	\$10,000	\$0	0.00	(\$65,000)	\$55,000	\$10,000	\$0

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 8013 - Enforcement Reduction & Fund Switch - The Executive Budget includes a request to reduce general fund authority through a funding switch. If approved, statutory changes would be restricted in the following areas:

- o Legislation to earmark of Air Quality Act penalties to reduce general fund is described as follows:
Administrative penalties (75-2-401(3)(b)) and civil penalties (75-2-413(4)) collected under the Clean Air Act of Montana are deposited in the alternative energy revolving loan account established in 75-25-101 MCA. If

approved, this proposal would require legislation to continue to deposit 50 percent of the penalties into the loan account and deposit 50 percent into the state special revenue account (02201) for implementation of the air quality permit program. Projected penalties are estimated to be \$120,000 for each year of the 2005 biennium. In addition the legislation would reallocate air quality fees to Program 30 (estimated \$60,000 annually) and reduce an equal amount of Program 30 general fund (estimated \$60,000).

According to the department, if general fund is reduced, and the air quality fee money is not allowed to replace it, the department's capability to investigate citizen complaints, collect evidence to document violations, evaluate spills that threaten the environment, and process formal enforcement cases would be reduced. Some investigations that normally require a field trip will not be conducted. Some citizen complaints will not be addressed. The processing of formal enforcement cases will slow and formal enforcement actions will not be initiated for some violations. If formal enforcement slows, the department's ability to seek a penalty for violations older than two years will be lost due to the two-year statute of limitations of penalty assessment.

- o A funding switch of \$20,000 for the biennium from general fund to EPA grant additional funds is described as follows:

According to the department, this funding switch would allow an increase in EPA grant money to offset a decrease in general fund. If general fund is reduced, and the EPA grant money is not allowed to replace it, DEQ's capability to investigate citizen complaints, collect evidence to document violations, evaluate spills that threaten the environment, and process formal enforcement cases would be lowered, investigations that require a field trip would not be conducted, some citizen complaints would not be addressed, the processing of formal enforcement cases would slow, and formal enforcement actions would not be initiated for some violations. According to the executive, if formal enforcement slows, DEQ's ability to seek a penalty for violations older than two years would be lost due to the two-year statute of limitations of penalty assessment.

**LFD
ISSUE**

As proposed, this request would utilize revenue sources derived from fines, fees, and penalties that are de-earmarked to the general fund. When a funding source derives income from fines, fees, or penalties, the legislature routinely reviews these funds to determine if they are candidates for de-earmarking under 17-1-505, MCA. Historically, this has been done to avoid directly funding enforcement activities with fines. When these funding sources are de-earmarked, the department has the opportunity to seek a general fund appropriation for these purposes.

If the legislature chooses to approve this appropriation, it should be aware that no general fund would be saved. Although a general fund appropriation would not be sought, a similar amount of general fund would be diverted into the state special revenue fund for the same purpose. Thus, even though the funding appears to come from state special revenue, revenues to the general fund are reduced.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	82.75	1.25	0.00	84.00	1.25	0.00	84.00	84.00
Personal Services	2,817,221	1,114,501	0	3,931,722	1,114,638	0	3,931,859	7,863,581
Operating Expenses	5,660,531	1,275,451	111,111	7,047,093	677,766	0	6,338,297	13,385,390
Equipment	0	0	0	0	0	0	0	0
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	1,364,619	(264,619)	0	1,100,000	(264,619)	0	1,100,000	2,200,000
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$9,842,371	\$2,125,333	\$111,111	\$12,078,815	\$1,527,785	\$0	\$11,370,156	\$23,448,971
State/Other Special	4,058,044	959,731	11,111	5,028,886	675,022	0	4,733,066	9,761,952
Federal Special	5,784,327	1,165,602	100,000	7,049,929	852,763	0	6,637,090	13,687,019
Total Funds	\$9,842,371	\$2,125,333	\$111,111	\$12,078,815	\$1,527,785	\$0	\$11,370,156	\$23,448,971

Program Description

The Remediation Division is responsible for: 1) overseeing investigation and cleanup activities at state and federal superfund sites; 2) reclaiming abandoned mine lands; 3) regulating, permitting, and licensing underground storage tanks (UST); 4) implementing corrective actions for remediation of releases and spills from leaking USTs; 5) providing staff support for processing eligibility applications and claims submitted to the Petroleum Tank Release Compensation Board for cleanup funds; and 6) overseeing groundwater remediation at sites where agricultural and industrial chemical spills have caused groundwater contamination. The purposes of these activities are to: 1) protect human health and the environment; 2) prevent exposure of potential human and ecological receptors to hazardous or deleterious substances that have been released to soil, sediment, surface water, or groundwater; and 3) ensure compliance with applicable state and federal regulations. The division is comprised of three bureaus: Hazardous Waste Site Cleanup Bureau, Mine Waste Cleanup Bureau, and the Technical Services Bureau. The division works closely with the Petroleum Tank Release Compensation Board, which provides financial assistance for cleanup of petroleum contaminated leaking UST sites. The Petroleum Tank Release Compensation Board is attached to the Department of Environmental Quality for administrative purposes.

Program Narrative

Remediation Division Major Program Highlights	
○ Requesting reductions to fund pay increases given as part of the transition to pay plan 20 ○ Requesting base adjustments because of under spending due to vacant positions ○ Seeking to re-establish FTE removed because of long-term vacancies	
Major LFD Issues	
○ Some reductions to fund pay increases associated with the transition to pay plan 20 are short-term in nature ○ Number of base adjustments should decrease if pay increases associated with the move to pay plan 20 improve recruitment and retention efforts	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Remediation Division						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
02054 Ust-Installer Lic & Permit Acc	\$ 69,786	0.7%	\$ 81,945	0.7%	\$ 82,031	0.7%
02058 Petroleum Storage Tank Cleanup	1,470,405	14.9%	1,811,604	15.0%	1,856,683	16.3%
02064 Bn Activity	2,305	0.0%	-	-	-	-
02070 Hazardous Waste-Cercla	160,138	1.6%	236,470	2.0%	187,562	1.6%
02075 Ust Leak Prevention Program	295,944	3.0%	339,076	2.8%	341,898	3.0%
02162 Environmental Quality Protecti	653,160	6.6%	1,099,998	9.1%	803,197	7.1%
02203 Arco	2,305	0.0%	2,221	0.0%	2,223	0.0%
02206 Agriculture Monitoring	2,636	0.0%	10,000	0.1%	10,002	0.1%
02325 Circle K Remediation	10,907	0.1%	12,497	0.1%	12,514	0.1%
02472 Orphan Share Fund	1,390,458	14.1%	1,331,049	11.0%	1,333,247	11.7%
02520 Sst/Ou Remedial Action	-	-	104,026	0.9%	103,709	0.9%
03036 Deq - Federal Aml Grant	3,228,185	32.8%	3,454,092	28.6%	3,507,151	30.8%
03222 Superfund Lockwood Sol Site	430,944	4.4%	408,181	3.4%	363,766	3.2%
03228 L.U.S.T./Trust	558,390	5.7%	1,084,701	9.0%	642,410	5.6%
03256 Superfund Core	313,404	3.2%	359,729	3.0%	360,965	3.2%
03257 Superfund Multi-Site	942,177	9.6%	1,403,969	11.6%	1,423,079	12.5%
03262 Epa Ppg	294,644	3.0%	321,490	2.7%	321,931	2.8%
03663 Aml Special Projects	16,583	0.2%	17,767	0.1%	17,788	0.2%
Grand Total	<u>\$ 9,842,371</u>	<u>100.0%</u>	<u>\$ 12,078,815</u>	<u>100.0%</u>	<u>\$ 11,370,156</u>	<u>100.0%</u>

State special funding sources include: 1) revenue from the \$0.0075 gas tax for petroleum tank cleanup; 2) 7.5 percent of the state Resource Indemnity Trust (RIT) interest (deposited to the environmental quality protection fund); 3) a portion of the resource indemnity and groundwater tax revenues (deposited to the orphan share account); and 4) underground storage tank registration fees.

Federal funding sources include: 1) a federal tax on Montana's coal production of which up to 50 percent is returned to the state for abandoned mine reclamation; and 2) money from the U.S. Environmental Protection Agency (including superfund, leaking underground storage tank trust, and performance partnership grants).

**LFD
ISSUE**

This program proposes to use Resource Indemnity Trust (RIT) funding sources (reclamation and development, and orphan share accounts). These accounts are projected to have a significant negative ending balance for the 2005 biennium. For a further discussion of RIT funding sources, please see the RIT discussion in the agency overview section of the Department of Natural Resources and Conservation.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				1,147,920						1,148,179
Vacancy Savings				(158,613)						(158,610)
Inflation/Deflation				5,523						9,453
Fixed Costs				115,469						124,236
Total Statewide Present Law Adjustments				\$1,110,299						\$1,123,258
DP 15 - HWSC - Budget Adjustments										
0.00	0	(147,322)	159,520	12,198	0.00	0	(147,324)	174,257		26,933
DP 16 - MWCBC Base Adjustment										
0.00	0	30,000	40,041	70,041	0.00	0	31,632	46,439		78,071
DP 17 - TSB - Budget Adjustments										
0.00	0	62,652	(16,793)	45,859	0.00	0	69,343	(16,793)		52,550
DP 41 - Re-establish 1.25 FTE										
1.25	0	7,793	36,685	44,478	1.25	0	40,795	3,615		44,410
DP 53 - HWSC - LUST Contracted Services - OTO										
0.00	0	34,500	310,500	345,000	0.00	0	0	0		0
DP 54 - MWCBC - Libby Asbestos Removal										
0.00	0	0	145,000	145,000	0.00	0	0	145,000		145,000
DP 66 - Petro Board Contracts Budget Adjustment										
0.00	0	65,000	0	65,000	0.00	0	65,000	0		65,000
DP 71 - TSB - Database Consolidation - OTO Restricted										
0.00	0	23,500	36,500	60,000	0.00	0	23,500	36,500		60,000
DP 81 - HWSC - EQPF Legal Contracts										
0.00	0	300,000	0	300,000	0.00	0	0	0		0
DP 82 - MWCBC - 2.00 FTE Aggregate										
0.00	0	0	86,000	86,000	0.00	0	0	86,000		86,000
DP 83 - HWSC - Alternative Payplan Adjustment										
0.00	0	(53,857)	(3,215)	(57,072)	0.00	0	(53,857)	(3,215)		(57,072)
DP 84 - MWCBC - Alternative Payplan Adjustment										
0.00	0	0	(60,000)	(60,000)	0.00	0	0	(60,000)		(60,000)
DP 85 - TSB - Alternative Payplan Adjustment										
0.00	0	(21,403)	(5,881)	(27,284)	0.00	0	(21,403)	(5,881)		(27,284)
DP 86 - FAS - Base Adjustments										
0.00	0	7,149	5,127	12,276	0.00	0	10,122	7,259		17,381
DP 87 - FAS - Alternative Payplan Adjustment										
0.00	0	(15,408)	(11,054)	(26,462)	0.00	0	(15,408)	(11,054)		(26,462)
Total Other Present Law Adjustments										
1.25	\$0	\$292,604	\$722,430	\$1,015,034	1.25	\$0	\$2,400	\$402,127		\$404,527
Grand Total All Present Law Adjustments				\$2,125,333						\$1,527,785

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 15 - HWSC - Budget Adjustments - The Executive Budget includes a base adjustment for the Hazardous Waste Site Cleanup Bureau. According to the executive, staff vacancies resulted in an under-spending of several expenditure categories.

LFD ISSUE

In DP 15 above, and DPs 16, 17, and 86 below, the executive has requested base adjustments to fully fund programs because of under-spending due to staff vacancies over the last couple of biennia. The department expects to see fewer vacancies because of the implementation of pay plan 20. The legislature may wish to direct the department to track recruitment and retention trends now that they have moved to pay plan 20. If recruitment and retention improves, the legislature might expect to see fewer "base adjustment" decision packages in future biennia. For a further discussion of pay plan 20 and base adjustments, please see the agency overview section.

DP 16 - MWCB Base Adjustment - The Executive Budget includes base adjustments for the Mine Waste Cleanup Bureau. According to the executive, staff vacancies resulted in an under-spending of several expenditure categories.

**LFD
ISSUE**

See the discussion, under DP 15.

DP 17 - TSB - Budget Adjustments - The Executive Budget includes base adjustments for the Technical Services Bureau. According to the executive, staff vacancies resulted in an under-spending of several expenditure categories.

**LFD
ISSUE**

Issue - See the discussion, under DP 15.

DP 41 - Re-establish 1.25 FTE - The Executive Budget includes a request to re-establish 1.25 FTE in the Petroleum Release and Fiscal and Administrative Services sections. The 1.0 FTE was eliminated due to a long-term vacancy and was converted to a modified FTE and eventually filled. The position remains filled as a modified position and it provides technical expertise to new staff and drafts technical policies for the program.

The second position was temporarily reduced to .75 FTE to accommodate the needs of the employee. Due to the prolonged vacancy, the original .25 FTE reduction was converted into a modified FTE. If approved, the .25 FTE would be combined with the duties of the .75 FTE position to create 1.00 FTE. The executive is requesting permanent funding for both positions.

DP 53 - HWSC - LUST Contracted Services - OTO - The Executive Budget includes a request for increased spending authority for Leaking Underground Storage Tank Program site clean up. Federal Leaking Underground Storage Tanks (LUST) Trust grant carryover funds are available and EPA is mandating that the department spend these funds in the next biennium. Revenue is available to increase present law federal expenditures by \$345,000 for the 2005 biennium. If approved, the funding would augment current efforts to investigate and cleanup LUST sites where a responsible party is unable to or unwilling to do the work, or where no responsible party can be identified.

**LFD
COMMENT**

At the request of the executive, the legislature may wish to designate the authority as one-time-only in nature.

DP 54 - MWCB - Libby Asbestos Removal - The Executive Budget includes a request for a base adjustment for Libby asbestos removal. The EPA is addressing the Libby Asbestos project as a removal action until long-term plans are developed. It is currently evaluating sample data collected in and around Libby associated with past mining and related asbestos problems. The site is proposed for the national priority list and the EPA will be the lead agency with the department providing support. According to the executive, not as much work was completed in fiscal 2002 as anticipated. This base adjustment allows for additional travel and contracted services not expended in the base year. Due to federal delays in site listing, this position has not been filled. If approved, funding for this FTE and related operations would also be included.

DP 66 - Petro Board Contracts Budget Adjustment - The Executive Budget includes a request for a base adjustment for the Petroleum Board contract. An additional \$65,000 is requested to fund the board's subrogation contract. Under this contract, insurance companies and other responsible parties will be sought to reimburse the Petroleum Tank Release Compensation Board for past board expenditures.

DP 71 - TSB - Database Consolidation - OTO Restricted - The Executive Budget includes a request for database

consolidation and maintenance in the Technical Service Bureau (TSB) in conjunction with long-term plans for conversion to Oracle.

**LFD
COMMENT**

At the request of the executive, the legislature may wish to designate this request as restricted, one-time-only authority.

DP 81 - HWSC - EQPF Legal Contracts - The Executive Budget includes a request for authority to spend environmental quality protection fund money for outside legal contracts. If approved, outside counsel would be contracted to pursue a cost recovery action at sites such as Block P Mines & Mill, Upper Blackfoot Mining Complex, and the Lockwood Solvent Site.

**LFD
COMMENT**

The executive is seeking a biennial, restricted, one-time-only appropriation for these purposes. If approved, the legislature may wish to make these designations.

DP 82 - MWCB - 2.00 FTE Aggregate - The Executive Budget includes a request to add FTE to the Mine Waste Cleanup Bureau. Funding for 1.00 FTE was approved last legislative session.

DP 83 - HWSC - Alternative Payplan Adjustment - The Executive Budget includes a request to fund pay increases associated with a department-wide move to pay plan 20. The department indicates that they would utilize fewer outside remediation contracts and holding vacant positions open for extended periods of time.

**LFD
ISSUE**

In DP 83 above, and in DP 84, 85, and 87 below, the executive is proposing to utilize vacant positions to fund the alternative pay plan. While using this method to fund the pay plan reduces expenditures in the short-run, in the long run the legislature will be faced with increased costs associated with personal services. Please see agency-wide issues related to the move to pay plan 20.

DP 84 - MWCB - Alternative Payplan Adjustment - The Executive Budget includes a request to fund pay increases associated with a department-wide move to pay plan 20. The department indicates that they would utilize fewer outside remediation contracts and holding vacant positions open for extended periods of time.

DP 85 - TSB - Alternative Payplan Adjustment - The Executive Budget includes a request to fund pay increases associated with a department-wide move to pay plan 20. The department indicates that they would utilize fewer outside remediation contracts and holding vacant positions open for extended periods of time.

DP 86 - FAS - Base Adjustments - The Executive Budget includes a request for a base adjustment in the Fiscal and Administrative Services Bureau. According to the executive, staff vacancies resulted in expenditure categories such as supplies, telephone charges, travel, and training being under-spent in the base year.

**LFD
ISSUE**

See the discussion, under DP 15.

DP 87 - FAS - Alternative Payplan Adjustment - The Executive Budget includes a request to fund pay increases associated with a department-wide move to pay plan 20. The department indicates that they would utilize fewer outside remediation contracts and holding vacant positions open for extended periods of time.

**LFD
ISSUE**

The executive is proposing to utilize vacant positions to fund the alternative pay plan. While using this method to fund the pay plan reduces expenditure in the short-run, in the long run the legislature will be faced with increased costs associated with personal services. Please see agency wide issues related to the move to pay plan 20.

New Proposals

Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 65 - HWSC - UST Fields Site Billings Cleanup - OTO										
40	0.00	0	11,111	100,000	111,111	0.00	0	0	0	0
Total	0.00	\$0	\$11,111	\$100,000	\$111,111	0.00	\$0	\$0	\$0	\$0

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 65 - HWSC - UST Fields Site Billings Cleanup - OTO - The Executive Budget includes a request for authority to spend federal EPA funding made available for cleanup of abandoned underground storage tank (UST) sites. If approved, this pilot project would be used to cleanup multiple abandoned service stations along the 1st Avenue South corridor in Billings. The City of Billings and DEQ would be cooperative partners in this ongoing effort that would be know as the UST Fields project.

**LFD
COMMENT**

At the request of the executive, the legislature may wish to designate this request as biennial, restricted, and one-time-only in nature.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	159.70	6.00	(2.00)	163.70	6.00	(2.00)	163.70	163.70
Personal Services	6,241,775	1,434,109	(109,908)	7,565,976	1,433,021	(109,624)	7,565,172	15,131,148
Operating Expenses	14,103,255	32,646,165	(893,218)	45,856,202	(8,548,209)	106,572	5,661,618	51,517,820
Equipment	35,931	(23,592)	0	12,339	(23,592)	0	12,339	24,678
Grants	1,036,769	273,888	0	1,310,657	293,866	0	1,330,635	2,641,292
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$21,417,730	\$34,330,570	(\$1,003,126)	\$54,745,174	(\$6,844,914)	(\$3,052)	\$14,569,764	\$69,314,938
General Fund	1,155,004	52,454	(229,626)	977,832	50,916	(229,552)	976,368	1,954,200
State/Other Special	17,280,520	28,924,102	(923,500)	45,281,122	(8,312,692)	76,500	9,044,328	54,325,450
Federal Special	2,982,206	5,354,014	150,000	8,486,220	1,416,862	150,000	4,549,068	13,035,288
Total Funds	\$21,417,730	\$34,330,570	(\$1,003,126)	\$54,745,174	(\$6,844,914)	(\$3,052)	\$14,569,764	\$69,314,938

Program Description

The Permitting and Compliance Division administers all DEQ permitting and compliance activities that relate to 25 state regulatory and five related federal authorities. The division: 1) reviews and assesses environmental permit applications (coordinating with other state, local, and federal agencies) to determine control measures needed to ensure compliance with the law and to prevent land, water, and air conditions detrimental to public health welfare, safety and the environment; 2) prepares supporting environmental documents under the Montana Environmental Policy Act and provides training and technical assistance when needed; 3) inspects to determine compliance with permit conditions, laws and rules; and 4) when compliance problems are discovered, provides assistance to resolve the facility's compliance issues, in close coordination with Enforcement Division. Activities are organized in the Air & Waste Management Bureau (air, asbestos, hazardous waste); Community Services Bureau (solid waste, junk vehicles, public water supply, waste water operators); Environmental Management Bureau (hard rock, facility siting); Industrial and Energy Minerals Bureau (coal, uranium, opencut); and Water Protection Bureau (subdivisions, water).

Program Narrative

Permitting and Compliance Division	
Major Program Highlights	
o	The division proposes to use the reclamation and development account as a funding source
o	Requesting reductions to fund pay increases given as part of the transition to pay plan 20
o	Requesting base adjustments because of under spending due to vacant positions
Major LFD Issues	
o	Some pay plan 20 adjustments would be short-term in nature
o	Number of base adjustments should decrease if pay increases associated with the move to pay plan 20 improve recruitment and retention efforts
o	The reclamation and development fund is projected to have a significant negative balance at the end of the 2005 biennium

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Permitting & Compliance Div.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 1,155,004	5.4%	\$ 977,832	1.8%	\$ 976,368	6.7%
02065 Washington Gulch Bond Forfeit	218,372	1.0%	218,372	0.4%	-	-
02067 C R Kendall Bond Forfeiture	21,869	0.1%	1,871,869	3.4%	-	-
02070 Hazardous Waste-Cercla	480,285	2.2%	526,971	1.0%	527,406	3.6%
02096 Reclamation - Bond Forfeitures	38,216	0.2%	2,617,574	4.8%	-	-
02130 Zort/Land Explor Bond Forf	76,848	0.4%	276,848	0.5%	-	-
02138 Zort/Land Open Cul Bond Forf	46,268	0.2%	191,268	0.3%	-	-
02157 Solid Waste Management Fee	482,836	2.3%	549,528	1.0%	554,247	3.8%
02201 Air Quality-Operating Fees	1,692,021	7.9%	1,947,040	3.6%	1,948,989	13.4%
02202 Asbestos Control	147,148	0.7%	197,042	0.4%	194,872	1.3%
02204 Public Drinking Water	641,409	3.0%	747,918	1.4%	750,943	5.2%
02278 Npdes Permit Program	697,258	3.3%	804,767	1.5%	810,569	5.6%
02418 Subdivision Plat Review	563,301	2.6%	1,027,711	1.9%	1,032,673	7.1%
02420 Bd Of Cert For W&Ww Op	87,526	0.4%	108,420	0.2%	108,917	0.7%
02421 Hazardous Waste Fees	23,389	0.1%	111,490	0.2%	21,524	0.1%
02428 Major Facility Siting	458,871	2.1%	300,000	0.5%	-	-
02438 Pegasus-Beal Mountain	1,320,764	6.2%	1,475,764	2.7%	-	-
02458 Reclamation & Development	1,296,535	6.1%	1,526,604	2.8%	1,531,681	10.5%
02521 Pegasus Bankruptcy/Operations	656,640	3.1%	2,119,282	3.9%	-	-
02845 Junk Vehicle Disposal	1,114,244	5.2%	1,530,893	2.8%	1,552,507	10.7%
02940 Pegasus-Basin	513,688	2.4%	1,413,688	2.6%	-	-
02945 Zortman Reclamation-Comp Bid	2,833,140	13.2%	6,333,140	11.6%	-	-
02946 Landusky Reclamation-Comp Bid	3,866,779	18.1%	13,866,779	25.3%	-	-
02954 Septage Fees	2,959	0.0%	10,000	0.0%	10,000	0.1%
02960 Glacier General Insurance Co	154	0.0%	8,154	0.0%	-	-
02988 Hard Rock Mining Reclamation	-	-	5,500,000	10.0%	-	-
03040 Operator Training Reim	11,206	0.1%	548,356	1.0%	598,998	4.1%
03067 Dsl Federsl Reclamation Grant	810,824	3.8%	1,100,128	2.0%	1,105,775	7.6%
03100 Epa / Drinking Water Srf	264	0.0%	-	-	-	-
03231 Drinking Water Srf Ffy 01	-	-	334,454	0.6%	334,963	2.3%
03232 Drinking Water Srf Ffy 00	165,225	0.8%	154,474	0.3%	154,015	1.1%
03249 Nps Implementation Grant	75,011	0.4%	95,564	0.2%	96,228	0.7%
03262 Epa Ppg	1,855,247	8.7%	2,103,244	3.8%	2,109,089	14.5%
03326 Blm For Zortman & Landusky	-	-	2,000,000	3.7%	-	-
03672 Forest Service - Beal Mtn	-	-	2,000,000	3.7%	-	-
03798 Homeland Water System Security	-	-	150,000	0.3%	150,000	1.0%
03952 Epa-Srf-Dw 1998 Grant	2,054	0.0%	-	-	-	-
03953 Drinking Water Srf 99	62,375	0.3%	-	-	-	-
Grand Total	\$ 21,417,730	100.0%	\$ 54,745,174	100.0%	\$ 14,569,764	100.0%

This division is funded from general fund and numerous sources of state and federal special revenue. General fund is used primarily for activities concerning hard rock mining, solid waste management, major facility sites, and opencut mining. The largest source of state special revenue funding is from forfeited hard rock mining bonds followed by air quality operating fees, junk vehicle fees, and funding from the reclamation and development RIT account. Funding from EPA performance partnership grants provides the largest source of federal funds followed by the Department of State Lands reclamation account and the state revolving drinking water grant.

LFD ISSUE

This program proposes to use a Resource Indemnity Trust (RIT) funding source (reclamation and development account). This account is projected to have a significant negative ending balance for the 2005 biennium. For a further discussion of RIT funding sources, please see the RIT discussion in the agency overview section of the Department of Natural Resources and Conservation.

For further discussion of RIT funding sources, please see the RIT discussion in the Agency Overview section of the Department of Natural Resources and Conservation.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				1,697,316					1,695,265	
Vacancy Savings				(317,551)					(317,471)	
Inflation/Deflation				12,722					21,424	
Fixed Costs				23,328					41,579	
Total Statewide Present Law Adjustments				\$1,415,815					\$1,440,797	
DP 18 - PCD Alternative Pay Plan Adjustments	0.00	(43,630)	(487,040)	(71,656)	(602,326)	0.00	(43,630)	(487,040)	(71,656)	(602,326)
DP 19 - PCD Administration Base Adjustment	0.00	0	9,926	0	9,926	0.00	0	9,926	0	9,926
DP 21 - Bond Forfeitures/Settlements - Restricted	0.00	0	20,800,000	0	20,800,000	0.00	0	(9,592,738)	0	(9,592,738)
DP 22 - MEPA Administration Base Adjustment	0.00	20,308	0	0	20,308	0.00	20,308	0	0	20,308
DP 23 - MEPA Projects Base Adjustment	0.00	0	548,421	0	548,421	0.00	0	(451,579)	0	(451,579)
DP 24 - Air Budget Adjustments	0.00	0	86,688	0	86,688	0.00	0	86,553	0	86,553
DP 25 - Hazardous Waste Base Adjustment	0.00	0	47,691	(24,097)	23,594	0.00	0	47,961	(23,984)	23,977
DP 26 - Asbestos Budget Adjustments	0.00	0	7,867	(6,052)	1,815	0.00	0	8,550	(6,077)	2,473
DP 27 - Junk Vehicle Base Adjustment	0.00	0	40,998	0	40,998	0.00	0	41,188	0	41,188
DP 28 - PWSS Base Adjustment	0.00	0	32	53,787	53,819	0.00	0	109	54,528	54,637
DP 29 - Solid Waste Base Adjustment	0.00	6,986	54,587	0	61,573	0.00	6,986	58,579	0	65,565
DP 30 - Water/Waste Water Operator Cert Base Adjustment	0.00	0	39,572	29,876	69,448	0.00	0	39,619	29,980	69,599
DP 31 - Hard Rock Base Adjustment	0.00	3,207	92,057	0	95,264	0.00	0	84,536	0	84,536
DP 32 - MFSA Administration Base Adjustment	0.00	(37,888)	0	0	(37,888)	0.00	(37,885)	0	0	(37,885)
DP 33 - MFSA Projects Base Adjustment	0.00	0	300,000	0	300,000	0.00	0	0	0	0
DP 34 - Hard Rock Debt Service Base Adjustment	0.00	0	5,500,000	0	5,500,000	0.00	0	0	0	0
DP 35 - Hard Rock Federal Funds Base Adjustment	0.00	0	0	4,000,000	4,000,000	0.00	0	0	0	0
DP 36 - Coal Program Base Adjustment	0.00	0	12,843	147,371	160,214	0.00	0	13,474	149,896	163,370
DP 37 - Opencut Program Base Adjustment	0.00	(18,012)	48,061	0	30,049	0.00	(17,410)	50,471	0	33,061
DP 38 - Subdivisions Base Adjustment	0.00	0	261,264	0	261,264	0.00	0	266,295	0	266,295
DP 39 - Water Permits Base Adjustment	0.00	4,031	27,985	15,116	47,132	0.00	4,677	32,991	17,537	55,205
DP 40 - PL Re-establish 1.00 FTE-CSB	1.00	0	28,947	15,238	44,185	1.00	0	30,200	15,706	45,906
DP 42 - PLBA - DW SRF Set Asides	3.00	0	0	240,000	240,000	3.00	0	0	240,000	240,000
DP 45 - Restore OTO-PLBA Asbestos Compliance	1.00	21,168	42,977	0	64,145	1.00	19,878	40,358	0	60,236
DP 46 - Restore OTO-PLBA-Haz Waste Contr Serv-Biennial	0.00	0	90,000	0	90,000	0.00	0	0	0	0
DP 47 - PLBA Water, Wastewater Exams	0.00	0	15,000	20,000	35,000	0.00	0	15,000	20,000	35,000
DP 48 - PLBA Operator Reimbursement Implementation	0.00	0	0	487,391	487,391	0.00	0	0	537,391	537,391
DP 50 - Restore OTO-PLBA Junk Vehicle Grants to Counties	0.00	0	113,888	0	113,888	0.00	0	133,866	0	133,866
DP 51 - Restore OTO-PLBA Abandoned Vehicle Reimbursements	0.00	0	172,230	0	172,230	0.00	0	172,230	0	172,230
DP 69 - Restore OTO PLBA Waste Management Database Dev	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 70 - PLBA PCD Database Maintenance Contracts	0.00	0	121,862	27,000	148,862	0.00	0	121,861	27,000	148,861
DP 78 - PL Re-establish 1.0 FTE-Air, PWSS, Opencut										

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
1.00	2,269	34,601	8,508	45,378	1.00	2,263	34,511	8,486	45,260	
DP 80 - Budget Amendment Adjustments										
0.00	0	(44,651)	(1,972)	(46,623)	0.00	0	(44,651)	(1,975)	(46,626)	
Total Other Present Law Adjustments										
6.00	(\$41,561)	\$28,015,806	\$4,940,510	\$32,914,755	6.00	(\$44,813)	(\$9,237,730)	\$996,832	(\$8,285,711)	
Grand Total All Present Law Adjustments				\$34,330,570						(\$6,844,914)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 18 - PCD Alternative Pay Plan Adjustments - The Executive Budget includes a request for a budget reduction to offset the increased costs associated with the agency-wide move to pay plan 20. The executive would reduce contracted services in the areas of training, information technology development and research; reduce future purchases of computers, field and office supplies; reduce the amount of travel; and, as a result of the move to pay plan 20, the executive is planning on fewer advertising costs due to improved recruitment and retention. In addition, the executive would rely on vacant positions to fund a portion of the cost.

LFD ISSUE

The executive is proposing to utilize vacant positions to fund the alternative pay plan. While using this method to fund the pay plan reduces expenditure in the short-run, in the long run the legislature will be faced with increased costs associated with personal services. Please see agency wide issues related to the move to pay plan 20.

DP 19 - PCD Administration Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, this request would re-establish the base budget for operating expenses for the administrative unit of the division in the following areas: management assistance, supplies, travel, training for administrative staff, and consultant services.

LFD ISSUE

This program proposes to use a Resource Indemnity Trust (RIT) funding source (reclamation and development account). This account is projected to have a significant negative ending balance for the 2005 biennium. For a further discussion of RIT funding sources, please see the RIT discussion in the agency overview section of the Department of Natural Resources and Conservation.

DP 21 - Bond Forfeitures/Settlements - Restricted - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, \$30.2 million of biennial authority would be used for reclamation of mine sites, with funding coming from bond forfeitures or settlement agreements. The total authority represents the amount of bonds held by the department plus any estimated settlements.

LFD COMMENT

The executive has requested that this authority be designated as restricted and biennial in nature.

DP 22 - MEPA Administration Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, adjustments would include increases in printing, office supplies, postage, advertising, and travel for consultation work with potential Environmental Impact Statement (EIS) applicants prior to the actual EIS preparation and contracts.

DP 23 - MEPA Projects Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, the adjustment would re-establish spending authority for consultant services for assistance on EIS's.

DP 24 - Air Budget Adjustments - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, the increases would include travel, supplies, communications, training and indirect charges due to vacancies. According to the executive, the program had several vacant FTE in fiscal 2002 that resulted in expenditure categories being under-spent. The executive is anticipating full staffing levels in the upcoming biennium.

**LFD
ISSUE**

In this DP and in DPs 28, 29, 31, 36, 38, and 39 below, the executive has requested base adjustments to fully fund programs because of under-spending due to staff vacancies over the last couple of biennia. The department expects to see fewer vacancies because of the implementation of pay plan 20. The legislature may wish to direct the department to track recruitment and retention trends now that they have moved to pay plan 20. If recruitment and retention improves, the legislature might expect to see fewer "base adjustment" decision packages in future biennia. For further discussion of pay plan 20 and base adjustments, please see the agency overview section.

DP 25 - Hazardous Waste Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, the base adjustment would reduce computer purchases and an increase in indirect expenditures in anticipation of full staffing.

DP 26 - Asbestos Budget Adjustments - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, the adjustment would increase overtime and indirect charges.

DP 27 - Junk Vehicle Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, base adjustments would increase overtime, pay for vehicle crushing, provide additional legal fees, increase travel, pay for non-department meeting rooms, maintain an aging vehicle, and pay for increasing indirect costs.

DP 28 - PWSS Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, base adjustments would be used for personal services and operating expenses due to extended program vacancies that occurred as a result of an inability to attract qualified applicants to the program. The executive anticipates staffing to returns to full levels.

**LFD
ISSUE**

See the discussion under DP 24

DP 29 - Solid Waste Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, base adjustments would be used for personal services and operating expenses due to program vacancies. The executive anticipates staffing to return to full levels.

**LFD
ISSUE**

See the discussion under DP 24

DP 30 - Water/Waste Water Operator Cert Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, in addition to the request for operating expenses and travel, the adjustment would include a correction of a data entry error. A portion of this base adjustment request (\$42,234) was entered in the Public Water Supply Program request. This request has been amended to reincorporate this amount while the Public Water Supply Program base adjustment request has been reduced by this amount.

DP 31 - Hard Rock Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. According to the executive, base adjustments are being requested to cover full staffing levels that are anticipated for the fiscal 2005 biennium, an increase in indirect costs, anticipated costs of printing and photocopying, and additional vehicle repairs and maintenance.

**LFD
ISSUE**

See the discussion under DP 24

**LFD
ISSUE**

This program proposes to use a Resource Indemnity Trust (RIT) funding source (reclamation and development account). This account is projected to have a significant negative ending balance for the 2005 biennium. For a further discussion of RIT funding sources, please see the RIT discussion in the agency overview section of the Department of Natural Resources and Conservation.

DP 32 - MFSA Administration Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated such as books, leased vehicles, and administration costs. Also included is a continuation of a 17-7-140, MCA, reduction of \$54,000 in each fiscal year. Although increases are included, the net impact of this decision package is a net general fund reduction.

**LFD
COMMENT**

The primary reduction goals established through implementation of 17-7-140 (spending reductions), MCA, in this program were to reduce division operating expenses, travel, supplies, temporary services, communications, and staff training. According to the executive, mitigation measures will include continued use of older supplies and equipment by increasing maintenance, combining trips, and seeking more on-line and/or sponsor-provided training.

DP 33 - MFSA Projects Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. Power generation projects are pending in the department. The department would use the authority to review plans for proposed facilities in an effort to comply with mandatory review time frames. If approved, this authority would be used for future Major Facility Siting Act projects with funding collected from MFSA fees.

**LFD
COMMENT**

At the request of the executive, the legislature may wish to designate authority as restricted and biennial in nature.

DP 34 - Hard Rock Debt Service Base Adjustment - The Executive Budget includes a request for authority to spend money raised through the sale of hard-rock mining reclamation bonds authorized by SB 484 in the 2001 legislative session on reclamation of mine sites. The executive is requesting state special revenue authority of \$5.5 million for these purposes.

DP 35 - Hard Rock Federal Funds Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, authority would be used for reclamation of mine sites and will be funded by various federal sources such as the United States Forest Service, Bureau of Land Management, Environmental Protection Agency, and the Corps of Engineers.

**LFD
COMMENT**

The executive requests that this authority be designated as restricted and biennial in nature.

DP 36 - Coal Program Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, authority would be used for supplies, travel for inspections, and indirect costs due to vacancies and extended leave, rent increase in the Billings office, and vehicle maintenance with the funding for the adjustment at 80 percent federal, 20 percent RIT.

**LFD
ISSUE**

See the discussion under DP 24.

**LFD
ISSUE**

This program proposes to use a Resource Indemnity Trust (RIT) funding source (reclamation and development account). This account is projected to have a significant negative ending balance for the 2005 biennium. For a further discussion of RIT funding sources, please see the RIT discussion in the agency overview section of the Department of Natural Resources and Conservation.

DP 37 - Opencut Program Base Adjustment - The Executive Budget includes a request for a base increase to restore fiscal 2002 authorized amounts in areas where increased expenditures are anticipated. If approved, authority would be used for overtime, microfilming, work study, temporary services, contracted services for hydrology and wildlife expertise, communications, increased use of motor pool lease vehicles, and other indirect costs. In addition, this adjustment replaces general fund with reclamation and development funds.

**LFD
ISSUE**

This program proposes to use a Resource Indemnity Trust (RIT) funding source (reclamation and development account). This account is projected to have a significant negative ending balance for the 2005 biennium. For a further discussion of RIT funding sources, please see the RIT discussion in the agency overview section of the Department of Natural Resources and Conservation.

DP 38 - Subdivisions Base Adjustment - The Executive Budget includes a request for authority for program costs and costs to reimburse counties for subdivision reviews. If approved, the authority would be used for overtime, increases in supplies, communications, travel due to vacancies, and restoration of costs of paying counties for subdivision reviews.

**LFD
ISSUE**

See the discussion under DP 24

DP 39 - Water Permits Base Adjustment - The Executive Budget includes a request for a base adjustment to address program costs due to vacancies. The 2001 legislature authorized funding for 4.00 new FTE in the Permitting Program. According to the executive, there was a delay in hiring these FTE that resulted in an under-spending of operating costs.

**LFD
ISSUE**

See the discussion under DP 24

DP 40 - PL Re-establish 1.00 FTE-CSB - The Executive Budget includes a request to re-establish a position that was deleted from the base budget during the 2001 legislature because of an extended vacancy. According to the executive, this position has been reprioritized and would be utilized to create a bureau-wide fiscal coordinator position that would coordinate and unify fiscal activity within the Community Services Bureau. The funding for the diverse programs in the bureau is very complex. Sources of funding include general fund, licensing and service fees, federal grants and set-asides, and recycling revenues. The goal of the proposed fiscal coordinator position would be to reduce the time to track and monitor budgets and fiscal status of the various programs and coordinate fiscal and support activities between different programs.

DP 42 - PLBA - DW SRF Set Asides - The Executive Budget includes a request for spending authority for additional federal state revolving funds to implement the federal Safe Drinking Water Act. Amendments to the original act increased state requirements for public drinking water systems on an annual basis. If approved, this request would add 3.00 FTE and fund increased expenditures for contracted services to provide on-site technical assistance and training for system operators. The FTE would be used to implement new rules and regulations and to provide assistance and technical advice to water system owners and operators implementing the requirements.

DP 45 - Restore OTO-PLBA Asbestos Compliance - The Executive Budget includes a request for funding for 1.00 FTE that would be used as an asbestos compliance specialist to address non-compliance concerns and increased workload. If approved, the FTE would be utilized to: 1) manage the asbestos accreditation process; 2) conduct administrative aspects of the program including tracking of annual and project permitting and course review approvals; 3) maintain program databases for record keeping and reporting; and 4) develop and deliver public outreach associated with asbestos abatement procedures and related compliance assistance activities. This was approved as a one-time-only (OTO) appropriation during the last legislative session and this is an on-going activity, the executive is requesting that the funding for this FTE be made permanent.

DP 46 - Restore OTO-PLBA-Hazardous Waste Contr Serv-Biennial - The Executive Budget includes a request to re-establish OTO funding for the Hazardous Waste for contracted technical assistance. Funding is proposed to come from hazardous waste fees. If approved, the authority would be used for contracted services to review new hazardous waste permit applications and ongoing permit and corrective action activities. Contractors would investigate facility background, review plans to characterize release of hazardous waste to land, water, or air, identify contaminant sources, prepare human health and ecological risk assessments, and verify data quality. This is not an on-going activity.

**LFD
COMMENT**

Executive revenue estimates for this fund indicate a large permit fee of approximately \$187,000 will be paid in fiscal 2004. An analysis of the hazardous waste fees fund indicates that if the additional application fee does not arrive in the biennium, an appropriation of the level proposed could not be supported by this funding source. However, the department has indicated that this permit revenue is likely to happen. Because this is not an on-going activity, the legislature may wish to attach a designation of OTO to reflect the one-time nature of the project.

DP 47 - PLBA Water, Wastewater Exams - The Executive Budget includes a request for authority to obtain contracted services in the Operator Certification Program. According to the executive, part of the Operator Certification Program approval by EPA materials used to certify operators of public water and wastewater systems must be regularly updated to include the latest regulations and techniques. If approved, this expenditure request would provide spending authority for contracted services to update the exams and study guides. Funding would be obtained from Drinking Water State Revolving Fund (SRF) set-aside grants and operator certification fees.

DP 48 - PLBA Operator Reimbursement Implementation - The Executive Budget includes a request for base increases to fully implement the Operator Reimbursement Program. This was a new program during fiscal 2002 and base expenditures were very low. If approved, funding would be used for other services, supplies, communications, travel, and other expenses. Final program and grant approval and award by EPA for this program were not received until late in the base year. Therefore, it was not possible to implement the program in time for a full year of operation and expenditures. Now that the grant award has been received, the program is able to begin full operations and reimbursement of training and certification costs for water and wastewater operators. Funding is 100 percent federal.

DP 50 - Restore OTO-PLBA Junk Vehicle Grants to Counties - The Executive Budget includes a request to provide grants to counties for administration of local junk vehicle programs. According to the executive, the number of vehicles registered in Montana increases approximately 1.2 percent annually and is requesting that grant funding to the counties be increased by that amount. In addition, the executive is requesting that this funding be made permanent.

DP 51 - Restore OTO-PLBA Abandoned Vehicle Reimbursements - The Executive Budget includes a request to re-establish spending authority for the Abandoned Vehicle Reimbursement Program to meet the \$0.15 set-aside mandated by HB 124 in the last session. HB 124 states that \$1 for each passenger car or truck under 8,001 pounds gross vehicle weight that is registered for licensing must be paid to the motor vehicle recycling and disposal program. Of each dollar, 15 cents must be used for the purpose of reimbursing the hired removal of abandoned vehicles. According to the executive, this is an ongoing program, and if approved, is requesting that spending authority no longer be classified as one-time-only.

DP 69 - Restore OTO PLBA Waste Management Database Dev - The Executive Budget includes a request for database maintenance and enhancements for the recently developed enterprise-wide databases within the Waste Management Section. The conversion of the Waste Management Section's database from AREV to an Oracle based system was completed in the 2003 biennium. If approved, the executive anticipates spending an additional \$50,000 per year from the junk vehicle disposal fee for the next two fiscal years for database modification, integration, and maintenance.

DP 70 - PLBA PCD Database Maintenance Contracts - The Executive Budget includes a request for database maintenance and enhancements for the recently developed enterprise-wide databases within the Permitting Division. Over the past two biennia, the Air, Hazardous Waste, Asbestos, Hard Rock Mining, Coal Mining, Opencut Mining, Subdivision, Water Discharge Permitting, and Public Water Supply programs have or are currently updating their databases to an ORACLE based system. According to the executive, each of these databases are expected to need refinement, updating for tracking and reporting, minor repairs to correct program "bugs" identified during normal operations, minor modifications to address change program priorities or business practices, and system modifications to provide additional functionality to the department, the public, and the regulated community. The databases are used to track environmental conditions such as air emissions and water discharges, fees, permits, compliance activities, licenses, and accreditations. If approved, funding would come from a variety of sources including, subdivision plat review, reclamation and development, hazardous waste- Cercla, asbestos control, air quality fees, and EPA grants.

**LFD
ISSUE**

This program proposes to use a Resource Indemnity Trust (RIT) funding source (reclamation and development account). This account is projected to have a significant negative ending balance for the 2005 biennium. For a further discussion of RIT funding sources, please see the RIT discussion in the agency overview section of the Department of Natural Resources and Conservation.

**LFD
ISSUE**

Part of overall database development within the department would include ongoing maintenance costs. For a further discussion of database development and maintenance costs, please see the agency overview section.

DP 78 - PL Re-establish 1.0 FTE-Air, PWSS, Opencut - The Executive Budget includes a request to re-establish funding for an FTE that was removed from the base budget by the 2001 legislature because of extended vacancies. The department would use the position for the following: 1) increase an administrative support .75 FTE to 1.00 FTE in the Public Water Supply program; 2) increase an administrative support .50 FTE to .75 FTE in the Industrial and Energy Minerals Bureau; and 3) create .50 FTE in the Air and Waste Management Bureau to provide assistance to energy facilities in the preparation and submittal of air quality permit applications and for the issuance of those permits.

**LFD
ISSUE**

This program proposes to use a Resource Indemnity Trust (RIT) funding source (reclamation and development account). This account is projected to have a significant negative ending balance for the 2005 biennium. For a further discussion of RIT funding sources, please see the RIT discussion in the agency overview section of the Department of Natural Resources and Conservation.

DP 80 - Budget Amendment Adjustments - The Executive Budget includes a request for a technical adjustment to correct a clerical error. According to the executive, expenditures were improperly recorded to a budget amendment reporting level in the state accounting system in error.

New Proposals										
Program	FTE	-----Fiscal 2004-----				-----Fiscal 2005-----				Total Funds
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	
DP 59 - NP-Homeland Security, Water System Security										
50	1.00	0	0	150,000	150,000	1.00	0	0	150,000	150,000
DP 201 - 50 Move MEPA to Program 10										
50	(3.00)	(153,126)	(1,000,000)	0	(1,153,126)	(3.00)	(153,052)	0	0	(153,052)
DP 7029 - Solid Waste General Fund Reduction										
50	0.00	(40,000)	40,000	0	0	0.00	(40,000)	40,000	0	0
DP 7039 - Water Permits Funding Adjustments										
50	0.00	(36,500)	36,500	0	0	0.00	(36,500)	36,500	0	0
Total	(2.00)	(\$229,626)	(\$923,500)	\$150,000	(\$1,003,126)	(2.00)	(\$229,552)	\$76,500	\$150,000	(\$3,052)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 59 - NP-Homeland Security, Water System Security - The Executive Budget includes a request for authority to implement water system security planning. If approved, this request would fund 1.00 FTE to work with water system operators to assess system vulnerability and to establish contracts for technical assistance and training for the facility owners and operators. The U.S. Congress has proposed several different funding and grant appropriations to allow states to assist water systems in protecting their systems.

DP 201 - 50 Move MEPA to Program 10 - The Executive Budget includes a request for authority to conduct an internal reorganization by moving the MEPA Program from Permitting & Compliance to Centralized Services. NP 200 in the Centralized Services Division is a similar request that would complete the reorganization.

DP 7029 - Solid Waste General Fund Reduction - The Executive Budget includes a request to reduce the general fund appropriation in the Solid Waste program by \$40,000 in each year of the biennium through a funding switch. If approved, the adjustment would be accomplished by switching 8 percent of position 00421 (Solid Waste program) and 47 percent of position 00020 (Solid Waste Program) to the Junk Vehicle Program.

DP 7039 - Water Permits Funding Adjustments - The Executive Budget includes a request to reduce the general fund appropriation through a funding switch within the Water Permits Section. This adjustment would reduce general fund authority and increase state special revenue authority by \$36,500 in each fiscal year. Approximately \$36,500 in groundwater permit fees are deposited into the permit program fund (02278) that replaces this general fund.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	139.49	5.00	1.00	145.49	5.00	1.00	145.49	145.49
Personal Services	5,321,854	553,700	33,817	5,909,371	553,956	33,745	5,909,555	11,818,926
Operating Expenses	2,069,914	903,530	15,060	2,988,504	911,179	15,060	2,996,153	5,984,657
Equipment	277,408	33,573	0	310,981	(43,027)	0	234,381	545,362
Benefits & Claims	0	0	0	0	0	0	0	0
Total Costs	\$7,669,176	\$1,490,803	\$48,877	\$9,208,856	\$1,422,108	\$48,805	\$9,140,089	\$18,348,945
General Fund	521,689	(14,522)	20,938	528,105	(10,973)	20,902	531,618	1,059,723
State/Other Special	6,622,614	482,251	0	7,104,865	406,458	0	7,029,072	14,133,937
Federal Special	524,873	1,023,074	27,939	1,575,886	1,026,623	27,903	1,579,399	3,155,285
Total Funds	\$7,669,176	\$1,490,803	\$48,877	\$9,208,856	\$1,422,108	\$48,805	\$9,140,089	\$18,348,945

Agency Description

The Department of Livestock is responsible for controlling and eradicating animal diseases, preventing the transmission of animal diseases to humans, protecting the livestock industry from theft and predatory animals, and regulating the milk industry relative to producer pricing. The department, which is provided for in 2-15-3101, MCA, consists of the Board of Livestock and its appointed executive officer; the Livestock Crimestoppers' Commission; and the Beef Research and Marketing Committee. The department is organized into five divisions: Animal Health, Centralized Services, Brand-Enforcement, Diagnostic Laboratory, and Meat, Milk, and Egg Inspection. The 57th Legislature added the Board of Horse Racing and its staff to the Department of Livestock. The Board of Livestock, which is the statutory head of the Department of Livestock, consists of seven members appointed by the Governor and confirmed by the Senate to serve six-year terms.

Reorganization

During the 2003 biennium, the Board of Livestock authorized transferring the Milk Control Bureau and the Predator Control Program to the Centralized Services Division (program 01). This reorganization transferred these functions without affecting services to the livestock industry.

Agency Discussion

Department of Livestock Major Budget Highlights	
○ The executive removes all general fund support from the Centralized Services Division ○ The executive proposes to raise fees charged by the diagnostic laboratory to accommodate reduced general fund within the division and make the laboratory more self-supporting ○ The executive continues the department's participation in the state-federal cooperative agreement for Brucellosis Management and the Greater Yellowstone Interagency Brucellosis Committee ○ The executive increases general fund and federal special revenue in the Meat and Poultry Inspection Program to add 1.00 FTE meat inspector	
Major LFD Issues	
○ None	

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget					
<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Grand Total</u>	<u>Total %</u>
Centralized Services Program	\$ -	\$ 4,095,208	\$ 130,060	\$ 4,225,268	23.0%
Diagnostic Laboratory	199,050	2,682,631	-	2,881,681	15.7%
Animal Health Division	-	1,334,949	2,100,000	3,434,949	18.7%
Milk & Egg Program	-	447,103	64,550	511,653	2.8%
Brands Enforcement Division	-	5,561,096	-	5,561,096	30.3%
Meat/Poultry Inspection	860,673	12,950	860,675	1,734,298	9.5%
Grand Total	<u>\$ 1,059,723</u>	<u>\$ 14,133,937</u>	<u>\$ 3,155,285</u>	<u>\$ 18,348,945</u>	<u>100.0%</u>

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	144.49	1.00	145.49	144.49	1.00	145.49	139.49	145.49
Personal Services	5,875,554	33,817	5,909,371	5,875,810	33,745	5,909,555	10,912,233	11,818,926
Operating Expenses	2,973,444	15,060	2,988,504	2,981,093	15,060	2,996,153	4,376,406	5,984,657
Equipment	310,981	0	310,981	234,381	0	234,381	639,699	545,362
Benefits & Claims	0	0	0	0	0	0	4,150	0
Total Costs	\$9,159,979	\$48,877	\$9,208,856	\$9,091,284	\$48,805	\$9,140,089	\$15,932,488	\$18,348,945
General Fund	507,167	20,938	528,105	510,716	20,902	531,618	1,150,748	1,059,723
State/Other Special	7,104,865	0	7,104,865	7,029,072	0	7,029,072	13,698,443	14,133,937
Federal Special	1,547,947	27,939	1,575,886	1,551,496	27,903	1,579,399	1,083,297	3,155,285
Total Funds	\$9,159,979	\$48,877	\$9,208,856	\$9,091,284	\$48,805	\$9,140,089	\$15,932,488	\$18,348,945

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5 - Additional Meat Inspector										
10	1.00	20,938	0	20,939	41,877	1.00	20,902	0	20,903	41,805
DP 10 - Shell Egg Increase										
05	0.00	0	0	7,000	7,000	0.00	0	0	7,000	7,000
Total	1.00	\$20,938	\$0	\$27,939	\$48,877	1.00	\$20,902	\$0	\$27,903	\$48,805

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	23.28	0.00	0.00	23.28	0.00	0.00	23.28	23.28
Personal Services	907,277	92,510	0	999,787	91,216	0	998,493	1,998,280
Operating Expenses	992,274	112,356	0	1,104,630	102,084	0	1,094,358	2,198,988
Equipment	82,326	(68,326)	0	14,000	(68,326)	0	14,000	28,000
Total Costs	\$1,981,877	\$136,540	\$0	\$2,118,417	\$124,974	\$0	\$2,106,851	\$4,225,268
General Fund	14,204	(14,204)	0	0	(14,204)	0	0	0
State/Other Special	1,875,111	178,276	0	2,053,387	166,710	0	2,041,821	4,095,208
Federal Special	92,562	(27,532)	0	65,030	(27,532)	0	65,030	130,060
Total Funds	\$1,981,877	\$136,540	\$0	\$2,118,417	\$124,974	\$0	\$2,106,851	\$4,225,268

Program Description

The Centralized Services Division is responsible for budgeting, accounting, payroll, personnel, legal services, purchasing, administrative, information technology, and general services functions for the department. The staff attorney in this division provides legal services to the department. The division also provides the overall management of the Milk Control Bureau. The Predator Control Program is administered by the Board of Livestock and the executive officer. The Livestock Crimestoppers' Commission and the Beef Research and Marketing Committee are administratively attached. The 57th Legislature moved the Board of Horse Racing to the Department of Livestock. This board and its staff report directly to the executive officer.

Program Narrative

Centralized Services Division Major Budget Highlights	
o	All general fund removed from this program in statewide adjustments
Major LFD Issues	
o	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Centralized Services Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 14,204	0.7%	\$ -	-	\$ -	-
02029 Board Of Horse Racing	176,392	8.9%	201,262	9.5%	201,390	9.6%
02426 Lvstk Per Capita	1,525,351	77.0%	1,668,640	78.8%	1,656,740	78.6%
02817 Milk Control Bureau	173,368	8.7%	183,485	8.7%	183,691	8.7%
03209 Meat/Poultry Inspection Sp Rev	65,030	3.3%	65,030	3.1%	65,030	3.1%
03427 Brucellosis Mgmt Federal Funds	27,532	1.4%	-	-	-	-
Grand Total	\$ 1,981,877	100.0%	\$ 2,118,417	100.0%	\$ 2,106,851	100.0%

The program is funded with state and federal special revenues. The Board of Horse Racing is funded entirely with board of horse racing state special revenue funding. Additional state special revenue is from the livestock per capita and milk control bureau state special revenue funds. Federal funds are from federal meat and poultry inspection funding.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				123,491						122,141
Vacancy Savings				(41,231)						(41,175)
Inflation/Deflation				5,370						5,633
Fixed Costs				65,301						54,068
Total Statewide Present Law Adjustments				\$152,931						\$140,667
DP 6 - Computer Server Replacements	0.00	0	14,000	0	14,000	0.00	0	14,000	0	14,000
DP 11 - Board Per Diem	0.00	0	10,250	0	10,250	0.00	0	10,250	0	10,250
DP 12 - I. T. Minor Equipment and Software	0.00	0	(56,120)	0	(56,120)	0.00	0	(55,670)	0	(55,670)
DP 13 - Out-of-State Travel	0.00	0	4,731	0	4,731	0.00	0	4,731	0	4,731
DP 18 - Board of Horse Racing Bldg. Rent	0.00	0	6,311	0	6,311	0.00	0	6,435	0	6,435
DP 19 - Board of Horse Racing In-State Lodging	0.00	0	4,437	0	4,437	0.00	0	4,561	0	4,561
Total Other Present Law Adjustments				\$0	(\$16,391)	\$0	(\$15,693)	\$0	(\$15,693)	\$0
Grand Total All Present Law Adjustments				\$136,540						\$124,974

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 6 - Computer Server Replacements - The executive requests \$14,000 in state special revenue authority to replace one server in each year of the biennium, in accordance with the department's four-year replacement plan. The department has four servers, and the four-year plan requires replacement of one server each year. This decision package is part of an overall reduction in computer expenditures, which is presented in DP 12.

DP 11 - Board Per Diem - The executive requests \$10,250 in state special revenue authority each year of the biennium to fund zero-based per diem costs for the Board of Livestock, the Board of Horse Racing, and the Milk Control Board. Per diem for the Board of Livestock and the Milk Control Board is carried over at the base year level, while per diem for the Board of Horse Racing is based on the projected number of meetings (six, versus two in the base year).

DP 12 - I. T. Minor Equipment and Software - The executive proposes a reduction of approximately \$56,000 in state special revenue authority in each year of the biennium to adjust for projected computer equipment purchases. Reasons given by the department for the decrease include reductions in the price of hardware, reductions in the amount of hardware necessary in the department, and removing one-time-only start up costs related to the Diagnostic Laboratory's Lab Information Management System.

DP 13 - Out-of-State Travel - The executive requests \$4,731 state special revenue authority in each year of the biennium to adjust base year travel expenditures to a level based on projected attendance at out-of-state industry meetings. Total projected travel expenditures are approximately \$13,000 each year.

DP 18 - Board of Horse Racing Bldg. Rent - The executive requests approximately \$6,000 in state special revenue authority each year to accommodate increased rental charges due to the Board of Horse Racing's relocation to the old Federal Building. Funding is entirely from the board of horse racing state special revenue fund.

DP 19 - Board of Horse Racing In-State Lodging - The executive requests an additional \$2,484 state special revenue authority in each year of the biennium for increased lodging costs for the Board of Horse Racing.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	21.00	0.00	0.00	21.00	0.00	0.00	21.00	21.00
Personal Services	872,496	73,539	0	946,035	73,341	0	945,837	1,891,872
Operating Expenses	441,829	178	0	442,007	7,573	0	449,402	891,409
Equipment	19,239	42,261	0	61,500	17,661	0	36,900	98,400
Total Costs	\$1,333,564	\$115,978	\$0	\$1,449,542	\$98,575	\$0	\$1,432,139	\$2,881,681
General Fund	109,381	(9,856)	0	99,525	(9,856)	0	99,525	199,050
State/Other Special	1,214,943	135,074	0	1,350,017	117,671	0	1,332,614	2,682,631
Federal Special	9,240	(9,240)	0	0	(9,240)	0	0	0
Total Funds	\$1,333,564	\$115,978	\$0	\$1,449,542	\$98,575	\$0	\$1,432,139	\$2,881,681

Program Description

The Diagnostic Laboratory provides livestock laboratory diagnostic support for the Disease Control Program, Milk and Egg Program, and livestock producers. Testing is done for zoonotic diseases (those animal diseases which can be transferred to humans) and on dairy products to protect the health of Montana citizens. Laboratory testing services are conducted upon request to assist animal owners, veterinarians, the Department of Fish, Wildlife and Parks, and other agencies in protecting the health of animals and wildlife.

Program Narrative

Diagnostic Laboratory Major Budget Highlights	
○	The executive proposes to raise fees charged by the laboratory to accommodate reduced general fund within the division and make the laboratory more self-supporting
Major LFD Issues	
○	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Diagnostic Laboratory						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 109,381	8.2%	\$ 99,525	6.9%	\$ 99,525	6.9%
02426 Lvstk Per Capita	800,862	60.1%	196,650	13.6%	178,953	12.5%
02427 Animal Health	414,081	31.1%	1,153,367	79.6%	1,153,661	80.6%
03427 Brucellosis Mgmt Federal Funds	9,240	0.7%	-	-	-	-
Grand Total	\$ 1,333,564	100.0%	\$ 1,449,542	100.0%	\$ 1,432,139	100.0%

The Diagnostic Laboratory Program is funded with a combination of general fund (7 percent), and state special revenue (livestock per capita - 13 percent; animal health - 80 percent).

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				112,957					112,748
Vacancy Savings				(39,418)					(39,407)
Inflation/Deflation				2,774					3,447
Fixed Costs				(64)					(64)
Total Statewide Present Law Adjustments				\$76,249					\$76,724
DP 4 - Lab Equipment and Operating Adjustments									
0.00	(9,856)	42,261	0	32,405	0.00	(9,856)	17,661	0	7,805
DP 15 - Lab - MSU Facility Recharges									
0.00	0	7,324	0	7,324	0.00	0	14,046	0	14,046
Total Other Present Law Adjustments									
0.00	(\$9,856)	\$49,585	\$0	\$39,729	0.00	(\$9,856)	\$31,707	\$0	\$21,851
Grand Total All Present Law Adjustments				\$115,978					\$98,575

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 4 - Lab Equipment and Operating Adjustments - The executive requests an increase in state special revenue authority and a decrease in general fund in each year of the biennium for the following adjustments:

- o Repair or replacement of lab equipment, including air conditioner, walk-in cooler, somatic cell counter, cryoscope, tissue imbedding center, and two carbon dioxide incubators. (\$51,501 - fiscal 2004; \$26,901 - fiscal 2005)
- o Removal of one-time-only office equipment expenditures in the base year (\$9,204 reduction each year)
- o The continuation of operating reductions made during the August 2002 special session (\$9,856 general fund reduction each year)

LFD ISSUE

The diagnostic laboratory has historically received general fund support for its role in providing testing for diseases affecting public health and safety, including rabies, chronic wasting disease, plague, tularemia, and other zoonotic diseases. The department states the reduction in general fund will be replaced with state special revenue from fee increases. Additionally, the laboratory's reliance on fee revenue will be increased significantly from base year expenditures, to help the department accommodate decreased revenues into the livestock per capita account. Figure 1 shows the allocation of funding sources in the base, adjusted base, and 2005 biennium request.

Figure 1
Diagnostic Laboratory
Funding Source Comparison

Funding Source	A/E	Fiscal Year			
		2000 Base	2002 Adj. Base	2004 Request	2005 Request
General Fund	01100	\$109,381	\$109,381	\$99,525	\$99,525
Livestock Per Capita	02426	800,862	191,065	196,650	178,953
Animal Health	02427	414,081	1,109,367	1,153,367	1,153,661
Brucellosis Management Federal Funds	03427	9,240	-	-	-
Total Expenditures		<u>\$1,333,564</u>	<u>\$1,409,813</u>	<u>\$1,449,542</u>	<u>\$1,432,139</u>

As Figure 1 shows, the 2005 biennium request funds a significant portion of laboratory expenditures with free revenue in the animal health account, as opposed to other state special revenue sources. Revenue projections for the

**LFD
ISSUE**

animal health account, as presented in the Executive Budget, show a projected increase of 96 percent over fiscal 2002 collections. However, the fee structure has not been updated. As of December 2, 2002, members of the Board of Livestock were analyzing the current fee structure to provide recommendations for fee adjustments. The legislature may wish to ask the department for an update on the laboratory's fee structure. At that time, the legislature may wish to reduce the general fund further, based on projected state special revenue increases attributed to the recommended fee adjustments.

Options:

- Accept the executive proposal
- Reduce general fund based on revised state special revenue estimates

DP 15 - Lab - MSU Facility Recharges - The executive requests additional state special revenue authority to accommodate increased facility use recharges paid to Montana State University. Funding is from the livestock per capita fund.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	13.00	5.00	0.00	18.00	5.00	0.00	18.00	18.00
Personal Services	462,131	285,309	0	747,440	284,078	0	746,209	1,493,649
Operating Expenses	109,535	772,490	0	882,025	773,740	0	883,275	1,765,300
Equipment	24,251	76,749	0	101,000	50,749	0	75,000	176,000
Benefits & Claims	0	0	0	0	0	0	0	0
Total Costs	\$595,917	\$1,134,548	\$0	\$1,730,465	\$1,108,567	\$0	\$1,704,484	\$3,434,949
State/Other Special	595,917	84,548	0	680,465	58,567	0	654,484	1,334,949
Federal Special	0	1,050,000	0	1,050,000	1,050,000	0	1,050,000	2,100,000
Total Funds	\$595,917	\$1,134,548	\$0	\$1,730,465	\$1,108,567	\$0	\$1,704,484	\$3,434,949

Program Description

The Animal Health Program provides diagnosis, prevention, control, and eradication of animal diseases, including those in bison and game farm animals. The program cooperates with the departments of Public Health and Human Services, Fish, Wildlife, and Parks, and Agriculture to protect human health from animal diseases transmissible to humans. Sanitary standards are supervised for animal concentration points, such as auction markets, and certain animal product processing facilities, such as rendering plants. The Rabies Control Unit protects public health from rabies by controlling the transmission of domestic animal and wildlife rabies, particularly through eradication of skunks.

Program Narrative

Animal Health Program	
Major Budget Highlights	
○	The executive continues the department's participation in the state-federal cooperative agreement for Brucellosis Management and the Greater Yellowstone Interagency Brucellosis Committee (GYIBC)
Major LFD Issues	
○	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Animal Health Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02426 Lvstk Per Capita	\$ 580,825	97.5%	\$ 665,373	38.5%	\$ 639,392	37.5%
02427 Animal Health	15,092	2.5%	15,092	0.9%	15,092	0.9%
03427 Brucellosis Mgmt Federal Funds	-	-	1,050,000	60.7%	1,050,000	61.6%
03673 Bluetongue/Fad	-	-	-	-	-	-
03797 Usda Homeland Security	-	-	-	-	-	-
Grand Total	\$ 595,917	100.0%	\$ 1,730,465	100.0%	\$ 1,704,484	100.0%

The Animal Health program is funded with state (livestock per capita - 38 percent; animal health - 1 percent) and federal special revenue (brucellosis management federal funds - 61 percent).

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				151,740					150,805
Vacancy Savings				(24,554)					(24,517)
Inflation/Deflation				2,147					2,939
Fixed Costs				0					0
Total Statewide Present Law Adjustments				\$129,333					\$129,227
DP 1 - Restore OTO Brucellosis Management	5.00	0	0	994,871	5.00	0	0	994,996	994,996
DP 3 - Restore OTO for Disease Outbreak	0.00	0	5,000	0	0.00	0	5,000	0	5,000
DP 8 - Vehicle Replacement	0.00	0	1,749	0	0.00	0	(24,251)	0	(24,251)
DP 20 - Out-of-State Travel	0.00	0	3,595	0	0.00	0	3,595	0	3,595
Total Other Present Law Adjustments									
	5.00	\$0	\$10,344	\$994,871	5.00	\$0	(\$15,656)	\$994,996	\$979,340
Grand Total All Present Law Adjustments				\$1,134,548					\$1,108,567

Executive Present Law Adjustments
The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Restore OTO Brucellosis Management - The executive requests the federal authority necessary to continue the Operations Cooperative Agreement between the Department of Livestock and the U.S. Department of Agriculture (\$750,000 each year) and department participation in the GYIBC (\$300,000 each year). This funding was designated as one-time-only for the 2003 biennium and does not show in base year expenditures. Therefore, the entire amount is being requested as a present law adjustment.

LFD
ISSUE

The 2001 legislature designated funding for the cooperative agreement and the GYIBC as one-time-only to effect reevaluation by the 2003 legislature. Therefore, this funding should have been requested and justified as a new proposal. Additionally, the legislature may wish to ask the department for an update on activities related to the cooperative agreement and participation in the GYIBC.

DP 3 - Restore OTO for Disease Outbreak - The executive requests \$5,000 in state special revenue each year of the biennium to provide the department with the flexibility to respond immediately to outbreaks of serious diseases, including, but not limited to, brucellosis, chronic wasting disease, or anthrax. The 2001 legislature authorized approximately \$178,000 each year for this purpose, as one-time-only. Therefore, expenditures do not carry over into the base.

**LFD
ISSUE**

The 2001 legislature designated funding for brucellosis or other disease outbreak as one-time-only, to ensure any expenditures spent for such a purpose would not carry over into the base. Therefore, this funding should have been requested and justified as a new proposal.

DP 8 - Vehicle Replacement - The executive proposes to replace one vehicle within the division in fiscal 2004. When applied to expenditures already in the base, this results in an increase of \$1,749 in fiscal 2004 and a reduction of \$24,251 in fiscal 2005. Adjustments are made entirely to the livestock per capita state special revenue fund.

DP 20 - Out-of-State Travel - The executive requests an increase in state special revenue authority of approximately \$4,000 each year to adjust base year expenditures to accommodate anticipated out-of-state travel for members of the division.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	4.00	0.00	0.00	4.00	0.00	0.00	4.00	4.00
Personal Services	222,070	(16,733)	0	205,337	(16,326)	0	205,744	411,081
Operating Expenses	26,313	3,788	7,000	37,101	4,158	7,000	37,471	74,572
Equipment	19,917	(19,917)	0	0	6,083	0	26,000	26,000
Total Costs	\$268,300	(\$32,862)	\$7,000	\$242,438	(\$6,085)	\$7,000	\$269,215	\$511,653
State/Other Special	243,025	(32,862)	0	210,163	(6,085)	0	236,940	447,103
Federal Special	25,275	0	7,000	32,275	0	7,000	32,275	64,550
Total Funds	\$268,300	(\$32,862)	\$7,000	\$242,438	(\$6,085)	\$7,000	\$269,215	\$511,653

Program Description

The Milk and Egg Inspection Program ensures that eggs, milk, and milk products sold or manufactured in Montana are fit for human consumption. Enforcement of state and federal laws is accomplished through licensing, sampling, laboratory testing, and product and site inspections, done in cooperation with other state and federal agencies.

Program Narrative

Milk and Egg Program Major Budget Highlights	
o	No major changes to historical or current operations
Major LFD Issues	
o	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Milk & Egg Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02426 Lvstk Per Capita	\$ -	-	\$ -	-	\$ -	-
02427 Animal Health	243,025	90.6%	210,163	86.7%	236,940	88.0%
03032 Animal Health Sp. Rev	25,275	9.4%	32,275	13.3%	32,275	12.0%
Grand Total	\$ 268,300	100.0%	\$ 242,438	100.0%	\$ 269,215	100.0%

The Milk and Egg Program is funded with a mixture of state and federal special revenues. State special revenues are derived from a portion of the 14.97 cents per hundred-weight tax (CWT) on Class I milk sold by producers in Montana. Federal funds are provided by the US Department of Agriculture to conduct shell egg surveillance.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					(8,177)					(7,754)
Vacancy Savings					(8,556)					(8,572)
Inflation/Deflation					818					1,188
Total Statewide Present Law Adjustments					(\$15,915)					(\$15,138)
DP 9 - Vehicle Replacement - Milk and Egg Inspection	0.00	0	(19,917)	0	(19,917)	0.00	0	6,083	0	6,083
DP 21 - Out-of-State Travel for Milk & Egg Inspection	0.00	0	2,970	0	2,970	0.00	0	2,970	0	2,970
Total Other Present Law Adjustments	0.00	\$0	(\$16,947)	\$0	(\$16,947)	0.00	\$0	\$9,053	\$0	\$9,053
Grand Total All Present Law Adjustments					(\$32,862)					(\$6,085)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 9 - Vehicle Replacement - Milk and Egg Inspection - The executive proposes to replace one vehicle assigned to the Milk and Egg Inspection Bureau in fiscal 2005. This results in a reduction to state special revenue authority of \$19,917 in fiscal 2004, and an increase of \$6,083 in fiscal 2005.

DP 21 - Out-of-State Travel for Milk & Egg Inspection - The executive requests \$7,000 in state special revenue authority in each year of the biennium for out-of-state travel for three of four sanitarians assigned to the Milk and Egg Bureau.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 10 - Shell Egg Increase										
05	0.00	0	0	7,000	7,000	0.00	0	0	7,000	7,000
Total	0.00	\$0	\$0	\$7,000	\$7,000	0.00	\$0	\$0	\$7,000	\$7,000

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 10 - Shell Egg Increase - The executive requests additional federal special revenue authority of \$7,000 each year to accommodate additional funding to participate in a Hazard Analysis of Critical Control Points.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	61.71	0.00	0.00	61.71	0.00	0.00	61.71	61.71
Personal Services	2,254,715	97,259	0	2,351,974	98,833	0	2,353,548	4,705,522
Operating Expenses	305,437	12,466	0	317,903	15,272	0	320,709	638,612
Equipment	131,675	2,806	0	134,481	(49,194)	0	82,481	216,962
Total Costs	\$2,691,827	\$112,531	\$0	\$2,804,358	\$64,911	\$0	\$2,756,738	\$5,561,096
State/Other Special	2,691,827	112,531	0	2,804,358	64,911	0	2,756,738	5,561,096
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$2,691,827	\$112,531	\$0	\$2,804,358	\$64,911	\$0	\$2,756,738	\$5,561,096

Program Description

The Brands Enforcement Division is responsible for livestock theft investigations, stray livestock investigations, brand inspections, recording of livestock brands, filing of security interests on livestock, livestock auction licensing, livestock dealer licensing, hide inspections, and beef inspections.

Program Narrative

Brands Enforcement Division Major Budget Highlights	
o	No major changes to historical or current operations
Major LFD Issues	
o	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Brands Enforcement Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02425 Inspection And Control	\$ 2,090,550	77.7%	\$ 2,028,224	72.3%	\$ 2,028,224	73.6%
02426 Lvstk Per Capita	601,277	22.3%	776,134	27.7%	728,514	26.4%
03427 Brucellosis Mgmt Federal Funds	-	-	-	-	-	-
Grand Total	\$ 2,691,827	100.0%	\$ 2,804,358	100.0%	\$ 2,756,738	100.0%

The Brands Enforcement Division is funded entirely with state special revenues from the inspection and control and livestock per capita state special revenue funds.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					87,960					89,602
Vacancy Savings					(93,708)					(93,776)
Inflation/Deflation					10,170					12,976
Fixed Costs					0					0
Total Statewide Present Law Adjustments					\$4,422					\$8,802
DP 7 - Brands Enforcement Replacement Vehicles										
0.00	0		2,806	0	2,806	0.00	0	(49,194)	0	(49,194)
DP 22 - Out-of-State Travel - Brands										
0.00	0		2,296	0	2,296	0.00	0	2,296	0	2,296
DP 23 - Overtime - Brands Division										
0.00	0		103,007	0	103,007	0.00	0	103,007	0	103,007
Total Other Present Law Adjustments										
0.00	\$0		\$108,109	\$0	\$108,109	0.00	\$0	\$56,109	\$0	\$56,109
Grand Total All Present Law Adjustments					\$112,531					\$64,911

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7 - Brands Enforcement Replacement Vehicles - The executive proposes to replace five trucks in fiscal 2004 and three trucks in fiscal 2005. When applied to base expenditures, this results in a requested increase of \$2,806 in fiscal 2004 and a decrease of \$49,194 in fiscal 2005. Adjustments are made entirely to the inspection and control state special revenue fund.

DP 22 - Out-of-State Travel - Brands - The executive requests additional state special revenue authority to adjust base expenditures for anticipated out-of-state travel by Brands Enforcement Division personnel. The requested increase of \$2,296 each year is from the inspection and control state special revenue fund.

DP 23 - Overtime - Brands Division - The executive requests approximately \$103,007 in state special revenue authority in each year of the biennium to continue overtime funding for 46 brand inspectors.

LFD COMMENT

Overtime is a zero-based expenditure item, and does not carry forward into the adjusted base. The requested amount of \$103,007 is equal to the fiscal 2002 expenditure level.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	16.50	0.00	1.00	17.50	0.00	1.00	17.50	17.50
Personal Services	603,165	21,816	33,817	658,798	22,814	33,745	659,724	1,318,522
Operating Expenses	194,526	2,252	8,060	204,838	8,352	8,060	210,938	415,776
Total Costs	\$797,691	\$24,068	\$41,877	\$863,636	\$31,166	\$41,805	\$870,662	\$1,734,298
General Fund	398,104	9,538	20,938	428,580	13,087	20,902	432,093	860,673
State/Other Special	1,791	4,684	0	6,475	4,684	0	6,475	12,950
Federal Special	397,796	9,846	20,939	428,581	13,395	20,903	432,094	860,675
Total Funds	\$797,691	\$24,068	\$41,877	\$863,636	\$31,166	\$41,805	\$870,662	\$1,734,298

Program Description

The Meat and Poultry Inspection Program was established in 1987 by the Montana Meat and Poultry Inspection Act. It implements and enforces a meat and poultry inspection system equal to that maintained by the U.S. Department of Agriculture (USDA) and the Food Safety Inspection Service to assure clean, wholesome, and properly-labeled meat and poultry products for consumers.

Program Narrative

Meat and Poultry Inspection Program Major Budget Highlights	
○	The executive increases program funding by \$21,000 general fund and \$21,000 federal funds to add 1.00 FTE meat inspector
Major LFD Issues	
○	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Meat/Poultry Inspection						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 398,104	49.9%	\$ 428,580	49.6%	\$ 432,093	49.6%
02427 Animal Health	1,791	0.2%	6,475	0.7%	6,475	0.7%
03209 Meat/Poultry Inspection Sp Rev	397,796	49.9%	428,581	49.6%	432,094	49.6%
Grand Total	<u>\$ 797,691</u>	<u>100.0%</u>	<u>\$ 863,636</u>	<u>100.0%</u>	<u>\$ 870,662</u>	<u>100.0%</u>

The Meat and Poultry Inspection program is funded on a 50/50 split between federal funds and the required state match. Per cooperative agreement with the USDA, the state match cannot be provided through a fee on those being inspected by the program. Therefore, the state match for the program is provided by general fund. A small portion (less than 1 percent) of the program's funding comes from the animal health state special revenue account.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					47,856					48,896
Vacancy Savings					(26,040)					(26,082)
Inflation/Deflation					2,252					8,352
Fixed Costs					0					0
Total Statewide Present Law Adjustments					\$24,068					\$31,166
Grand Total All Present Law Adjustments					\$24,068					\$31,166

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
-----Fiscal 2004-----										
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 5 - Additional Meat Inspector										
10	1.00	20,938	0	20,939	41,877	1.00	20,902	0	20,903	41,805
Total	1.00	\$20,938	\$0	\$20,939	\$41,877	1.00	\$20,902	\$0	\$20,903	\$41,805

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 5 - Additional Meat Inspector - The executive requests approximately \$42,000 each year, to be funded 50/50 with general fund and federal special revenue, to support the addition of a 1.00 FTE meat inspector to accommodate an increase of 20 new meat slaughter and/or processing plants within the state. This request funds the FTE, a leased vehicle, and operating costs.

LFD COMMENT

Inspection for 11 of the 20 new plants are ongoing. In fiscal 2002 and 2003, the department received a grant from Growth Through Agriculture to match additional funds received by the department to conduct these new inspections. The general fund grant was for \$3,555 in fiscal 2002 and \$17,721 in fiscal 2003. Inspections at the other nine facilities will commence when facility sanitation standards are met.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	492.36	0.50	(4.60)	488.26	0.50	(4.60)	488.26	488.26
Personal Services	19,627,098	3,067,156	(263,784)	22,430,470	3,119,121	(263,532)	22,482,687	44,913,157
Operating Expenses	9,593,883	2,629,848	434,517	12,658,248	214,924	235,897	10,044,704	22,702,952
Equipment	783,169	(34,504)	61,000	809,665	(34,554)	0	748,615	1,558,280
Capital Outlay	454	0	0	454	0	0	454	908
Local Assistance	213,373	0	0	213,373	0	0	213,373	426,746
Grants	895,365	(302,154)	0	593,211	(310,961)	0	584,404	1,177,615
Benefits & Claims	500,000	500,000	0	1,000,000	500,000	0	1,000,000	2,000,000
Transfers	389,169	9,170	0	398,339	9,170	0	398,339	796,678
Debt Service	503,305	81,089	0	584,394	81,089	0	584,394	1,168,788
Total Costs	\$32,505,816	\$5,950,605	\$231,733	\$38,688,154	\$3,578,789	(\$27,635)	\$36,056,970	\$74,745,124
General Fund	16,205,128	2,187,075	(539,716)	17,852,487	2,222,599	(533,859)	17,893,868	35,746,355
State/Other Special	14,617,396	3,604,530	666,574	18,888,500	1,260,760	419,649	16,297,805	35,186,305
Federal Special	1,683,292	159,000	104,875	1,947,167	95,430	86,575	1,865,297	3,812,464
Total Funds	\$32,505,816	\$5,950,605	\$231,733	\$38,688,154	\$3,578,789	(\$27,635)	\$36,056,970	\$74,745,124

Agency Description

The Department of Natural Resources is tasked to: 1) manage the state trust land resource to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land; 2) protect Montana's natural resources from wildfires through regulation and partnerships with federal, state, and local agencies; 3) promote stewardship of state water, soil, forest, and rangeland resources, and regulate forest practices to protect water quality; 4) provide administrative, legal, and technical assistance and financial grants to the conservation districts and provide natural resource conservation and development programs; 5) resolve water resource use conflicts, manage state water projects, investigate water use violations, ensure dam safety compliance, and provide water adjudication support to the Water Court; 6) provide administrative support to the Reserved Water Rights Compact Commission to negotiate the settlement of reserved water rights claims of Indian Tribes and federal agencies; and 7) provide administrative support to the Board of Oil and Gas Conservation to assist in conservation of oil and gas and prevention of resource waste through regulation of oil and gas exploration and production. The State Board of Land Commissioners, comprised of the Governor, State Auditor, Attorney General, Superintendent of Public Instruction, and Secretary of State, exercise the general authority, direction, and control over the care, management, and disposition of state lands under its administration. The director is the chief administrative officer of the board.

Supplemental Appropriation Description

Executive Request

The executive intends to ask for supplemental appropriations to fund 2003 biennium fire costs in two bills - HB 16 and HB 3. HB 16 will be introduced early in the session for expedited action by the legislature and will total just under \$6.6 million. This appropriation would consist of:

- o A \$2.0 million general fund appropriation comprised of authority that was transferred from the Water Resources division to the Forestry Division
- o \$3.9 million that was transferred from Forestry Division's fiscal 2003 appropriation to pay costs of fiscal 2002 fire costs
- o \$700,000 transferred to the forestry division from other department sources in fiscal 2003 to pay fiscal 2002 fire costs

Figure 1 illustrates the content of HB 16:

Figure 1

Department of Natural Resources and Conservation Fiscal 2003 Supplemental Appropriation Request -- HB 16	
<u>PART 1:</u>	
<u>FY 2002 ACTUAL & ESTIMATED FIRE COSTS</u>	
Actual State Protection Costs as of May 6, 2002	\$8,545,277
U.S. Forest Service/BLM Final Bill	6,425,175
Fall 2001/Spring 2002 Fire Costs	500,000
Additional Spring Costs Due to Colorado Fire Assistance	603,000
DNRC Budgeted Cost	(151,798)
PAID & ANTICIPATED OBLIGATIONS	\$15,921,654
<u>PART 2:</u>	
<u>COSTS COVERED BY OTHER SOURCES</u>	
Governor's Emergency Fund Advance	(10,049,888)
Supplemental Appropriation	(2,000,000)
Total Cost Covered by Other Sources	(12,049,888)
Estimate of Unpaid Balance	<u>\$3,871,766</u>
<u>PART 3:</u>	
<u>SUPPLEMENTAL APPROPRIATION</u>	
Estimate of Unpaid Balance	\$3,871,766
Replenishment of Supplemental Appropriation	2,000,000
Transfers to Meet Payment Obligations -- From FY 2003	<u>700,000</u>
SUPPLEMENTAL APPROPRIATION REQUEST -- HB 16	<u>\$6,571,766</u>

Figure 2 illustrates the wildfire portion of HB 3:

Figure 2

Department of Natural Resources and Conservation Fiscal 2003 Supplemental Appropriation Request -- HB 3	
PART 1:	
<u>FY 2002 ACTUAL & ESTIMATED FIRE COSTS</u>	
Actual State Protection Costs as of October 31, 2002	\$792,730
DNRC Support to Federal/Other State Agencies	3,405,338
Additional Costs Not Paid	591,097
U.S. Forest Service/BLM Estimated Bill	725,015
Estimated Spring 2003 Fire Costs	750,000
DNRC Budgeted Cost	<u>(121,959)</u>
PAID & ANTICIPATED OBLIGATIONS	\$6,142,221
PART 2:	
<u>COSTS COVERED BY OTHER SOURCES</u>	
Federal Reimbursement -- U.S. Forest Service/BLM	<u>(3,644,358)</u>
Total Cost Covered by Other Sources	<u>(3,644,358)</u>
Estimate of Unpaid Balance	<u>\$2,497,863</u>
PART 3:	
<u>SUPPLEMENTAL APPROPRIATION</u>	
Estimate of Unpaid Balance	\$2,497,863
Transfers to Meet Program Obligations -- (in HB 16)	<u>(700,000)</u>
SUPPLEMENTAL APPROPRIATION REQUEST -- HB 3	<u>\$1,797,863</u>

Part 1 of the figure shows total estimated costs for DNRC's fire suppression efforts, including the anticipated bill from the federal government for assistance in fighting Montana fires. The department must pay: 1) \$792,730 to cover actual state protection costs; 2) an estimated \$3.4 million to assist federal and other state agencies in their fire suppression efforts (these are reimbursable costs); 3) \$591,097 for additional costs not yet billed; 4) an estimated \$725,015 to federal agencies for their costs associated with fighting state fires. These costs are typically due near the end of the fiscal year. In addition, the department must set aside an estimated \$0.8 million for anticipated Spring 2003 wildfire costs and deduct \$121,959 for personnel costs that had been budgeted in HB 2. These calculations bring the cost of fire suppression to approximately \$6.1 million.

Part 2 shows those portions of the cost that have been covered by non-DNRC funds such as the Governor's emergency fund. Although the department has not utilized the Governor's emergency fund in fiscal 2003, a net amount of \$6.3 million has been established by DNRC from the Governor's emergency fund in the 2003 biennium. Further, this section shows the estimated net cost of fire suppression incurred by DNRC. When Montana firefighters help other agencies suppress fires, Montana is reimbursed for associated expenses. Although not the usual course of business, DNRC asked for an early reimbursement of assistance dollars in an effort to address funding shortfalls. DNRC received \$3.6 million in reimbursements from other states and the federal government for Montana's assistance in fighting non-state responsibility fires in fiscal 2003. Thus, the net cost of fire suppression in fiscal 2003 is estimated to be \$2.5 million.

Part 3 shows the estimate of the supplemental appropriation. As discussed, \$700,000 of the fiscal 2003 fire costs will be requested in HB 16. Thus, the total of the supplemental appropriation in HB 3 is estimated to be \$1.8 million.

**LFD
ISSUE**

At the time of this writing, HB 3 includes fire suppression costs estimated to be approximately \$2.5 million by DNRC staff. Although the fire supplemental is estimated to be \$2.5 million, \$700,000 of that figure is included in the HB 16 request.

Agency Discussion

Department of Natural Resources and Conservation	
Major Budget Highlights	
○ The department is requesting present law adjustments totaling \$13.2 million over the biennium of which \$4.4 million are general fund requests ○ The largest request seeks funding for repairs on state owned dams ○ In addition to present law adjustments, the department is requesting 17 new proposals totaling \$1.5 million over the biennium. Of this total, general fund is being reduced by \$1.1 million	
Major LFD Issues	
○ The executive is requesting \$8.4 million in two supplemental appropriation bills • HB 16 will be \$6,571,766 • Wildfire portion of HB 3 will be \$1,797,863 • Alternative funding methods may exist ○ Several changes are requested that affect RIT related funds ○ Several RIT related funds are projected to have negative balances ○ Additional department programs could be considered for reduction	

Funding

The following table summarizes funding for the agency, by program and source as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget					
<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Grand Total</u>	<u>Total %</u>
Centralized Services	\$ 3,799,450	\$ 814,400	\$ 193,300	\$ 4,807,150	6.4%
Oil & Gas Conservation Div.	-	3,138,384	-	3,138,384	4.2%
Conservation/Resource Dev Div	4,674,625	2,562,844	419,371	7,656,840	10.2%
Water Resources Division	12,739,291	4,781,232	278,124	17,798,647	23.8%
Forestry	13,003,392	23,889,445	2,921,669	39,814,506	53.3%
Reserved Water Rights Comp Com	1,529,597	-	-	1,529,597	2.0%
Grand Total	<u>\$ 35,746,355</u>	<u>\$ 35,186,305</u>	<u>\$ 3,812,464</u>	<u>\$ 74,745,124</u>	<u>100.0%</u>

Biennium Budget Comparison

Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	492.86	(4.60)	488.26	492.86	(4.60)	488.26	492.36	488.26
Personal Services	22,694,254	(263,784)	22,430,470	22,746,219	(263,532)	22,482,687	38,518,689	44,913,157
Operating Expenses	12,223,731	434,517	12,658,248	9,808,807	235,897	10,044,704	15,490,668	22,702,952
Equipment	748,665	61,000	809,665	748,615	0	748,615	1,577,327	1,558,280
Capital Outlay	454	0	454	454	0	454	1,301	908
Local Assistance	213,373	0	213,373	213,373	0	213,373	434,373	426,746
Grants	593,211	0	593,211	584,404	0	584,404	1,785,125	1,177,615
Benefits & Claims	1,000,000	0	1,000,000	1,000,000	0	1,000,000	1,000,000	2,000,000
Transfers	398,339	0	398,339	398,339	0	398,339	778,338	796,678
Debt Service	584,394	0	584,394	584,394	0	584,394	1,087,672	1,168,788
Total Costs	\$38,456,421	\$231,733	\$38,688,154	\$36,084,605	(\$27,635)	\$36,056,970	\$60,673,493	\$74,745,124
General Fund	18,392,203	(539,716)	17,852,487	18,427,727	(533,859)	17,893,868	28,146,201	35,746,355
State/Other Special	18,221,926	666,574	18,888,500	15,878,156	419,649	16,297,805	28,966,713	35,186,305
Federal Special	1,842,292	104,875	1,947,167	1,778,722	86,575	1,865,297	3,560,579	3,812,464
Total Funds	\$38,456,421	\$231,733	\$38,688,154	\$36,084,605	(\$27,635)	\$36,056,970	\$60,673,493	\$74,745,124

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	-----Fiscal 2004-----				-----Fiscal 2005-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 8 - Re-Establish FTE										
22	3.00	0	162,296	0	162,296	3.00	0	137,059	0	137,059
DP 14 - Forestry Restoration of Seasonal FTE										
35	1.55	21,731	25,570	0	47,301	1.55	21,704	25,535	0	47,239
DP 19 - Restore-OTO-Water Rights Verification Project										
24	0.00	0	160,000	0	160,000	0.00	0	168,000	0	168,000
DP 22 - Re-wiring USF&G Building										
21	0.00	0	0	18,300	18,300	0.00	0	0	0	0
DP 23 - Heating System Replacement-OTO										
22	0.00	0	30,000	0	30,000	0.00	0	0	0	0
DP 26 - Inmate Fire Crew										
35	0.00	23,182	11,418	0	34,600	0.00	23,852	11,748	0	35,600
DP 51 - Coal Bed Methane Impounded Produced Water Study										
22	0.00	0	200,000	0	200,000	0.00	0	0	0	0
DP 52 - Historical Data Acquisition Project										
22	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
DP 7001 - Fund switch for forest practices programs										
35	0.00	(86,575)	0	86,575	0	0.00	(86,575)	0	86,575	0
DP 7002 - Applicants Pay Water Rights Notice Costs										
24	0.00	(23,000)	23,000	0	0	0.00	(23,000)	23,000	0	0
DP 7020 - Reduction to Meet Target										
21	(3.00)	(134,685)	0	0	(134,685)	(3.00)	(134,400)	0	0	(134,400)
DP 7020 - Reductions to Meet Target										
23	(1.00)	(48,810)	0	0	(48,810)	(1.00)	(48,730)	0	0	(48,730)
DP 7020 - Reduction to Meet Target										
24	(1.00)	(116,596)	0	0	(116,596)	(1.00)	(111,780)	0	0	(111,780)
DP 7020 - Reductions to meet target										
35	(4.15)	(174,963)	(45,710)	0	(220,673)	(4.15)	(174,930)	(45,693)	0	(220,623)
Total	(4.60)	(\$539,716)	\$666,574	\$104,875	\$231,733	(4.60)	(\$533,859)	\$419,649	\$86,575	(\$27,635)

Agency Issues

DNRC Fire Cost Estimate Fiscal 2003

The legislature usually does not appropriate any general fund in the general appropriations act to suppress wildfires (other than personal services appropriated for other purposes, but spent on fire suppression). Instead, it appropriates funding through: 1) a supplemental appropriation to reimburse the department for appropriation transfers and actual and expected fire suppression costs; and/or 2) statutory appropriations of up to \$12.0 million if the Governor declares a wildfire emergency. Therefore, pending approval of supplemental funding by the legislature, the department must fund all fire costs not funded through the emergency appropriation with operating funds. The amount of wildfire suppression appropriations approved by the legislature has varied widely, as Figure 3 shows.

DNRC Financial Difficulties

Despite fiscal 2003 being a relatively low cost fire season, DNRC spent much of the fire season coping with a difficult financial situation. Because of established inter-agency agreements, the department is obligated to assist other entities that are having severe fire seasons. The fiscal 2003 fire season could be characterized as mild because Montana had relatively few large fires. However, state resources were called upon to assist other state and federal entities with fire suppression. Although these costs are reimbursable, when Montana sends personnel, equipment, and supplies out of state, the department must pay bills as they come due.

Before the fiscal 2003 fire season began, the department transferred \$5.8 million of authority from fiscal 2003 to fiscal 2002. It then incurred \$3.6 million of reimbursable costs that it had to pay on an immediate basis. Thus, even though total fire costs of \$6.1 million were much lower than in the last couple of years, the department did not have enough authority remaining in fiscal 2003 to get through without financial difficulty. Because the department has experienced financial difficulty in the present biennium due to these funding methods, the legislature may wish to re-examine the current methodology and explore alternatives.

Funding Fires

The legislature does not provide an appropriation to DNRC for fire suppression costs. Instead, fire costs are paid temporarily from the Forestry Division's general fund appropriation and through the statutory emergency appropriation if an emergency or disaster is declared. DNRC is then reimbursed and all other bills, except those paid from the Governor's emergency fund, are funded through a supplemental appropriation.¹ Although the legislature chooses not to appropriate general fund authority specifically for wildland fire suppression costs outside of the Governor's emergency fund, it has demonstrated its commitment to pay for all fire suppression costs through supplemental appropriation. As evidenced in the 2003 biennium, while this process functions, it is problematic in a couple of ways.

- If the state does not have a severe fire season in the first year of the biennium, the process works well. The department will probably not have to move excessive amounts of authority from the second year of the biennium to fund fire costs in the first year. In addition, the supplemental appropriation bill in the next legislative session will make the agency whole again before funding becomes problematic. However, when a severe fire season occurs in the first year of the biennium, DNRC is faced with the burden of trying to find sources of authority in the second year to fund wildland fire suppression costs while trying to maintain current operations.
- The lack of spending authority potentially puts the legislature in the position of calling a special session if internal authority, emergency funding, and borrowing are not sufficient to cover suppression costs until the next legislative session.

Figure 3
Wildfire Suppression
General Fund (in Millions)

Biennium	Supplemental Appropriations	Statutory Appropriations	Total
1983	\$ 0.80		\$ 0.80
1985	2.90		2.90
1987	3.74		3.74
1989	12.64		12.64
1991	3.00	\$ 0.05	3.05
1993	7.94	1.96	9.91
1995	15.50	8.92	24.42
1997	4.47	3.10	7.57
1999	10.55		10.55
2001	33.22	6.20	39.42
2003*	8.37	7.01	15.38

* Includes FY 2003 Executive Request

¹ Therefore, any costs of fires are a reduction to the projected ending general fund balance.

In fiscal 2003, the department started out with less authority because fiscal 2003 authority was used to fund fiscal 2002 fire costs due to a relatively brisk fire season. The funding situation got worse in fiscal 2003 because of the type of fire costs being incurred. There are three basic types of wildfire costs. Each kind of cost affects the general fund in a different way. The following provide a description of the costs, timing, and effect on the general fund:

- Suppression costs that must be paid immediately. These costs include payroll to department personnel assigned to fire fighting and payments to local vendors providing necessary provisions. For example, on large complex fires, meals are supplied by a federal contract. The Forest Service will bill DNRC after the fire season for the state's portion of these costs. However, if a fire erupts that does not require the services of the contract caterer, local vendors must be paid for providing meals to firefighters. Portable bathroom facilities, land leases for a base camp, and vehicle repairs and maintenance are examples of immediate costs. In most cases, costs for these supplies are determined on a contract basis before the fire season.
- Costs for which DNRC will not be responsible until after the end of the fire season. The largest, most significant of these bills is termed the "Forest Service bill." The Forest Service bill contains many components. Some costs are paid up front and some will be billed later. Like DNRC, the federal government agrees to pay some costs as an immediate need arises. If a fire occurs on state responsibility land, DNRC will ultimately be responsible for the cost even if the Forest Service pays the initial bill.

In addition to bills paid immediately, the Forest Service has a vast supply network from which DNRC obtains fire fighting tools, equipment, and supplies. The immediate nature of fighting fires coupled with an increased demand on a national scale can create shortages of protective equipment and clothing. Thus, the Forest Service has developed a supply system for these necessary items. For example, if the State of Montana needs an air-tanker, it is requested through the Forest Service. Depending upon availability and level of priority, Montana will either receive the shipment quickly or will be placed on a waiting list. In either case, the cost will not have to be paid until the "Forest Service" bill is received.

Although it is termed as the Forest Service bill, there is often a myriad of entities involved. For example, if the State of Georgia sends a team of fire fighters, the State of Washington sends a couple of bulldozers, and the Bureau of Land Management (BLM) sends a helicopter to assist in the fire fighting efforts, the state does not pay these bills individually. Rather, each entity involved submits a bill to the Forest Service. Acting as a clearinghouse for fire suppression costs, the Forest Service consolidates, reconciles, and audits the final bill that is ultimately sent to Montana. Once DNRC receives its bill, a team of workers will verify that all costs are correct and accurate.

- Net cost. While DNRC faces immediate cash needs and the cost of fires seems ominous, the net effect of fighting fires can be much less than the total cost. Similar to the Forest Service bill, DNRC submits a bill of federal responsible costs of fighting wildland fires on federal responsible land. Accounting practices do not allow DNRC to "offset" bills with the Forest Service. Thus, DNRC must submit their bill to the Forest Service and wait for payment. Although the state is required to pay this bill rather quickly, payment is typically not received from the Forest Service immediately. Once payment is received, the money the state receives from the Forest Service is deposited directly to a federal special revenue fund.

As discussed, costs that affected "net cost" were the types of costs that were one of the primary causes of funding problems in fiscal 2003. This category of costs is incurred when the department sends personnel, equipment, and aircraft to assist with suppression efforts either within the state or out of state. In fiscal 2003, large fires in Colorado resulted in requests for DNRC assistance. Similar to the assistance Montana received during the 2000 fire season, Montana resources were sent out of state to help with fire suppression efforts. Although these are reimbursable costs, reimbursement does not typically occur until after a lengthy audit process.

As was mentioned, most of the costs incurred in fiscal 2003 tended to be immediate in nature and the department was required to pay these as they came due resulting in a drain on general fund operating authority. Because the department lacked general fund authority necessary to pay the immediate costs, it sought early payment. Although early reimbursement was granted, the department lacked general fund authority to spend the funds. Historically, the reimbursable costs were paid from the general fund and when the reimbursement came from the other entities, it was deposited to the general fund. However, a legal opinion issued by Greg Petesch, Code Commissioner for the State of Montana, indicated that practice was incorrect.

According to the opinion, because the reimbursable funds come from the federal government the deposit should be made to a federal special revenue fund. Thus, when the department received reimbursement, it was able to utilize existing federal authority to spend the reimbursed cash. In the future, the timing of these cash payments will likely be different. It was an unusual situation to receive an accelerated payment of cash for these purposes.

Current Method of Payment

Wildfire suppression costs are paid by two methods -- through the supplemental process and through an emergency statutory appropriation of up to \$12 million. There are problems associated with these methods: 1) because DNRC must pay all fire suppression costs until the legislature can meet in session and reimburse it, DNRC may be in danger of running short of its general fund operating appropriations in years with high wildfire costs (such as in the 2003 biennium); 2) to use the \$12 million statutory appropriation requires a declaration by the Governor of an emergency due to wildfires; and 3) there is no single appropriation source to budget for and record wildfire costs.

Depending upon the circumstances, DNRC may use several appropriation sources to pay for fire bills as they come due. For example, unless the Governor declares an emergency, the department must use the Forestry Division's operating budget. If that amount is insufficient, the department must look within the department to find authority to pay for suppression costs.

In past years, they have been successful in finding enough authority to pay for fires. However, they may have to use a number of sources of authority that were already appropriated for other purposes. The department routinely seeks supplemental appropriations from the legislature to make their programs whole after a fire season. Using authority not dedicated to fire suppression could put a program or agency in a situation where it might not be able to carry out statutory requirements. In some cases, finding appropriation authority might mean going outside the agency. For natural disasters that occur infrequently, this would probably not be a problem. However, Montana routinely has a fire season and having a single source of appropriation authority would be more efficient than searching for authority.

Alternative Funding Methods

There are a number of alternatives that will produce the result of funding fire suppression costs while minimizing the problems associated with the current method. The legislature may want to consider the following options when examining how fire suppression costs are funded in Montana:

- o Montana Wildfire Mobilization Fund - The legislature could establish and fund a "Montana Wildfire Mobilization Fund." The legislature could develop a trust that, once fully funded, the proceeds could be used to fund fire suppression costs. Funding could be provided from a number of sources. Some examples of which include:
 - o A fee (direct or prerequisite) assessed to recreationists through conservation, fishing, hunting, off road vehicle, or recreation use licenses
 - o A fee per million board feet of lumber harvested on state and private lands
 - o A statewide "Fire Lottery"
 - o An assessment on state Trust Lands for their protection
 - o A fee on all licenses and leases on state Trust Lands
 - o A portion of the existing Resort Tax
 - o A portion of the existing Bed Tax
 - o Establish a (partially?) bond-funded account using the state's bonding authority.
 - o Explore issuing catastrophe bonds via the capital market to cover suppression costs in exceptional years.
 - o Utilize any payments from billable fires to help support the fund rather than returning to the general fund

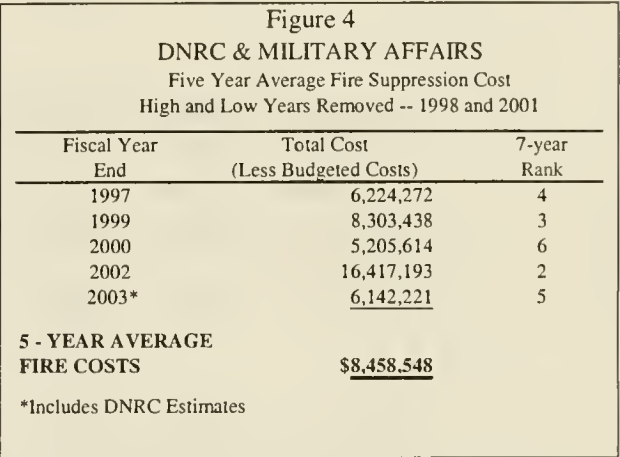
- An assessment on Non Forest Zone lands.²
- Assessments on power and railroad rights-of-way
- A \$5.00 license plate fee
- General fund appropriation
- A license fee for fireworks vendors

Data from the Department of Justice indicates that approximately 1.1 million vehicles are registered in the State of Montana. To illustrate how such a fund could be built, using a \$5.00 license plate fee, it would take approximately 7 biennia to build a trust sufficient to generate the \$8.4 million in interest that represents average annual fire costs. A \$10.00 fee would build a similar trust in approximately 4 biennia.

- HB 2 Appropriation The legislature could appropriate an amount for fire suppression costs through a HB 2 appropriation. Although the legislature could appropriate an amount for each year in the biennium based upon past fire season costs, a biennial appropriation would provide agency flexibility in particularly difficult fire seasons.

One method for determining a “reasonable” amount of appropriation is to use a seven-year moving average with the high and low years removed from the calculation. The adjacent figure shows a moving average using this methodology.

Using this method, the average cost is approximately \$8.5 million per year. Because of the uncertain nature of fires, costs above the appropriation could be funded through the supplemental appropriation process. Like other HB 2 appropriations, the legislature could restrict spending to fire suppression costs only.



- Portion of Emergency Fund The legislature could amend the \$12 million biennial statutory appropriation available for emergencies to allow DNRC to use a portion specifically for fire suppression costs. For example, rather than making \$12 million available for any emergency or disaster declared by the Governor, the statute could be amended to provide a \$4 million biennial appropriation for general emergencies and an \$8 million biennial appropriation available specifically for fire suppression. If desired, and only under certain pre-determined conditions, the \$8 million could be made available without a Governor’s declaration of disaster or emergency. However, restrictions could be used to limit spending on this funding. This would give DNRC some flexibility to fund difficult fire seasons. Suppression costs above the additional funding could be secured through the supplemental appropriation process.
- Increase in the Governor’s Emergency Fund The legislature could amend the \$12.0 million biennial statutory appropriation available for emergencies by increasing the total. While this option would provide access to general fund authority to pay for suppression costs, it could only be accessed if there was a Governor’s declaration of disaster or emergency. If the legislature decides to increase the amount of the emergency fund, it may wish to designate a portion be available at something more than unlimited access to the authority and something less than a requirement of a declaration of disaster or emergency. This would serve the purpose of having a dedicated source of authority to pay fire costs without disrupting normal operations within the department. The executive has proposed this option.

Resource Indemnity Trust

The Montana Constitution (Article IX, Section 2) requires the existence of the Resource Indemnity Trust (RIT) and states, “The principal of the resource indemnity trust shall forever remain inviolate in an amount of one hundred million dollars (\$100,000,000) guaranteed by the state against loss or diversion. In February of 2002, the Governor certified that the balance of the RIT trust had exceeded the \$100 million threshold. Consequently, the trust no longer receives revenue. However, interest earnings are used as a funding source for several funds discussed below.

² Defined as agriculture or pastureland ½ mile away from a forest stand. Thus, most broad valley zones greater than one mile would contain some non-forest zone land.

Figures 5 & 7 shows four elements of RIT as proposed by the executive. The first element shows the RIT revenues and trust balance using the Revenue and Transportation Committee (RATC) projections for fiscal years 2003, 2004, and 2005. As of 2002 fiscal year end, the RIT trust had a balance of approximately \$102.1 million.

Since the RIT reached the constitutionally mandated level of \$100 million, excess trust balance was available for transfer and appropriation. In the order of priority, the legislature transferred and appropriated: 1) \$1 million for a funding switch in DNRC; 2) \$300,000 for the purpose of weed eradication; 3) \$540,000 for the purpose of purchasing securities for water treatment at the former Zortman and Landusky mines, 4) \$120,000 for a Clark Fork River study; and 5) up to \$100,000 for conservation and irrigation district grants. After these transfers, the RIT trust is estimated to be \$100 million.

Figure 5
Resource Indemnity Trust (RIT): Interest Earnings, and Related Expenditure Accounts
2005 Biennium Projections (Including Executive Proposals and Appropriation Requests)

1				
RIT Revenues (RATC estimates)	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>
Projected Beginning Balance FY 2003		\$102,065,653	\$100,000,979	\$100,000,979
Fund Balance Allocations/transfers				
DNRC Funding Switch with General Fund		(1,000,000)		
Weed Eradication		(300,000)		
Water Treatment (\$540K)		(540,000)		
Clark Fork River Study		(120,000)		
Subdivisions, Cons. Dist., Irrigation grants		(100,000)		
Total Deposits/Legislative Changes		(\$2,060,000)		
RIGWAT Coal, Oil, Natural Gas Proceeds		(4,675)		
RIT Trust Balance	\$102,065,653	\$100,000,979	\$100,000,979	\$100,000,979
2				
	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Biennium Total</u>
RIGWA and Oil and Gas Tax (RATC estimates)	\$1,480,000	\$3,260,000	\$3,236,000	\$6,496,000
RIGWA Tax	\$1,080,000	\$1,055,000	\$1,062,000	\$2,117,000
<u>Statutory Allocations -- RIGWA</u>				
Libby Clean-up Debt Service (Proposed in IIB 10)		\$700,000	\$700,000	1,400,000
Groundwater Assessment Account-direct (02289)	366,000	355,000	362,000	717,000
Reclamation & Development-50% of Remainder (02458)	357,000	0	0	0
Natural Resource Worker Scholarship	0	0	0	0
Orphan Share Account- Remainder of RIGWA (02472)	357,000	0	0	0
TOTAL RIGWA STATUTORY ALLOCATIONS	1,080,000	1,055,000	1,062,000	2,117,000
Applicable Oil and Gas Tax	\$400,000	\$2,205,000	\$2,174,000	\$4,379,000
<u>Applicable Portion of Oil and Gas</u>				
Coal Bed Methane Protection	400,000	400,000	400,000	800,000
General Fund	0	1,805,000	1,774,000	
Reclamation & Development-50% of Remainder (02458)	0	0	0	0
Orphan Share Account-50% of Remainder (02472)	0	0	0	0
TOTAL Oil and Gas STATUTORY ALLOCATIONS	400,000	2,205,000	2,174,000	4,379,000
TOTAL RIGWA & OIL AND GAS ALLOCATIONS	\$1,480,000	\$3,260,000	\$3,236,000	\$6,496,000
3				
	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Biennium Total</u>
RIT Interest Earnings (RATC estimates)	\$7,377,000	\$7,379,000	\$7,380,000	\$14,759,000
Priority Statutory Allocations of Interest				
Environmental Contingency Account (02107)**	0	(175,000)	0	(175,000)
Oil & Gas Prod. Damage Mitigation Account (02010)***	0	(50,000)	0	(50,000)
Water Storage Account (02216)	0	(500,000)	0	(500,000)
Groundwater Assessment Account-direct (02289) ****	(300,000)	(300,000)	(300,000)	(600,000)
MSU-Northern Statutory Appropriation (02272)	(240,000)	(240,000)	(240,000)	(480,000)
Fish, Wildlife, and Parks -- Future Fisheries (02022)	(350,000)	(250,000)	(250,000)	(500,000)
Renewable Resource Grant & Loan Program (02272)	(2,000,000)	(2,000,000)	(2,000,000)	(4,000,000)
Reclamation & Development Grants (grants) (02458)	(1,200,000)	(1,200,000)	(1,200,000)	(2,400,000)
Total Allocations	(\$4,090,000)	(\$4,715,000)	(\$3,990,000)	(\$8,705,000)
Amount Available for Further Distribution	\$3,287,000	\$2,664,000	\$3,390,000	\$6,054,000

The second element shows the statutory allocations of resource indemnity and ground water assessment taxes (RIGWA) and the applicable portion of the oil and gas tax. The RIGWA tax and the applicable portion of oil and gas taxes are distributed to a number of natural resource accounts. The following describes the current law revenue sources of the main RIT funds, and is shown in figure 5.

- RIGWA – The state imposes a resource indemnity and ground water assessment (RIGWA) tax on the gross value of coal, as well as most minerals, excluding metals and oil and natural gas. Beginning in fiscal 2003, the first \$366,000 of the RIGWA tax is deposited into the ground water assessment account. Of the remainder, 50 percent is deposited into the reclamation and development account (R&D) for the purpose of making grants to be used for mineral development reclamation projects. Starting in fiscal 2004, an amount is deposited into an account for natural resource worker scholarships to bring the total in that program to \$150,000. All remaining funds are deposited into the orphan share account. The money in the orphan share accounts is available to the department by appropriation and must be used to reimburse remedial action costs and to pay costs incurred defending the orphan share.

Legislation proposed by the Office of Budget and Program Planning would provide an EPA funding match through the issuance of up to \$9.0 million in bonds (authorized under 75-10-623, MCA) that would be used to clean up the Libby and Troy areas. To pay debt service on these bonds, the legislation would utilize the first \$700,000 of the RIGWA tax proceeds, and no funds would go to the R&D or orphan share accounts, or the natural resource workers scholarship fund.

- Applicable portion of oil and gas taxes – A portion of oil and natural gas production taxes are distributed to the main RIT natural resource funds. 15-36-324 (9)(c), MCA, directs the first \$400,000 into the coal bed methane protection account. Money deposited in the account must be used to compensate landowners and water right holders for damages attributable to coal bed methane development and may not be spent until after June 30, 2005. The remainder of the applicable portion of oil and gas proceeds are split with 50 percent going to the R&D fund and 50 percent to the orphan share fund. As a consequence, the R&D and the orphan share accounts would again receive no revenues from this source.

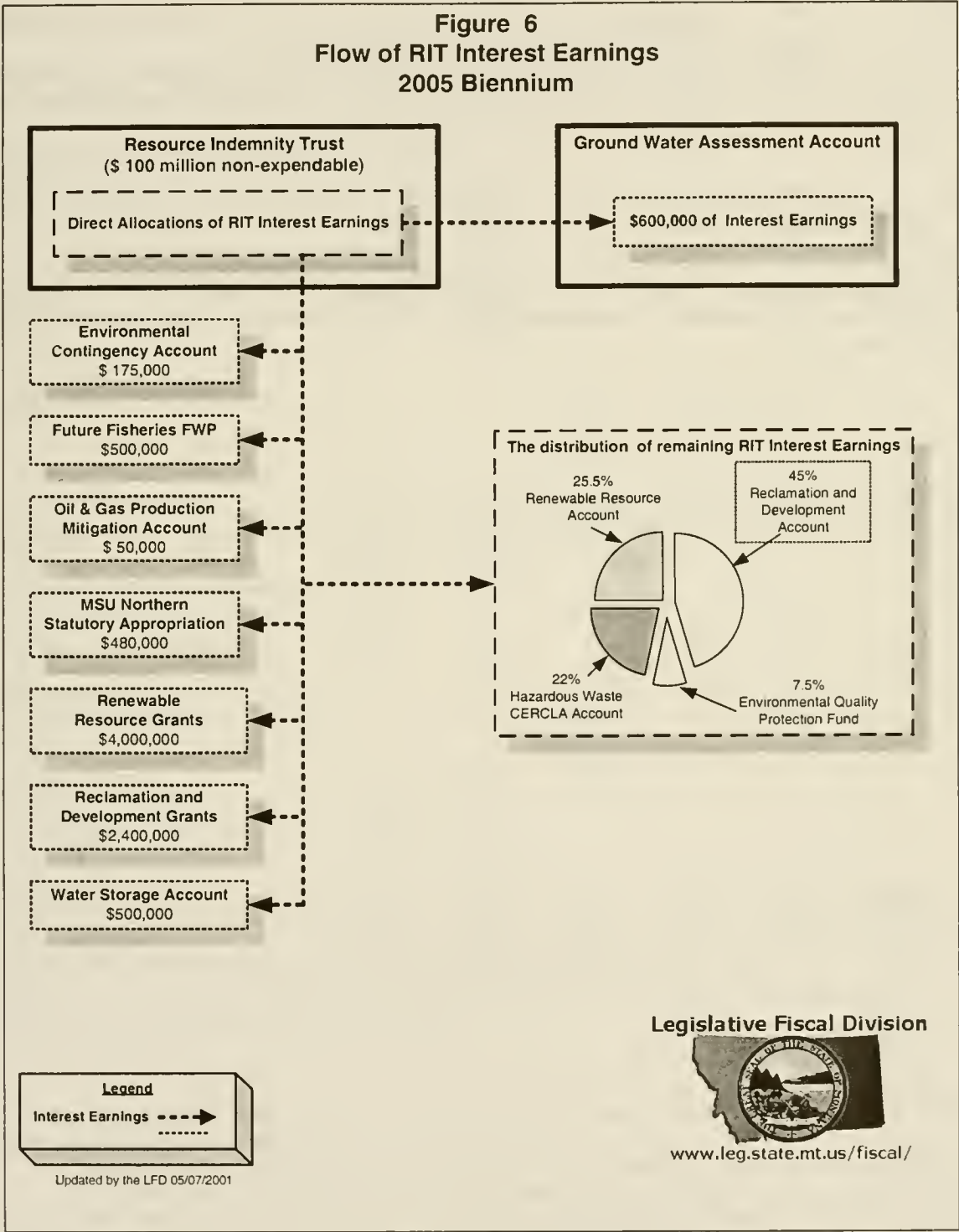
In the August 2002 special session, HB 10 diverted all remaining funds (after the \$400,000 distribution to the coal bed methane account) to the general fund. According to statute, changes would end on June 30, 2003. However, the executive is proposing legislation to continue diverting all remaining funds (after the \$400,000 distribution to the coal bed methane account) to the general fund.

- Metalliferous mines taxes – 7 percent of this funding source is directed to the reclamation and development account. A change proposed by the executive would divert 7 percent of the metalliferous mines tax to the general fund through the end of the 2005 biennium.

Trust Interest

- The third element shows the amount of interest generated by the RIT and the amounts that are allocated by statute for specific purposes in the 2005 biennium. 15-38-202, MCA, directs how interest from the RIT trust will be allocated. Driven by RATC estimates, \$14.8 million of interest is allocated to a number of sources. The constitution does not restrict the spending of interest from the RIT. For the 2005 biennium, statute directly allocates \$8.7 million of the interest for eight purposes.

The executive has proposed changes to the interest distribution through proposed legislation to reduce the amount of interest used for future fisheries projects. Figure 6 illustrates the flow of interest from the RIT for the 2005 biennium.



After the direct allocations are made, the fourth element shows seven main accounts that receive RIT interest and other revenues. After direct interest allocations are made, any interest remaining is now allocated as follows for appropriation by the legislature in HB 2:

- 25.5 percent to the renewable resource account, which funds programs in the Judiciary, Department of Natural Resources and Conservation, State Library Commission, MSU Northern, and the Governor's Office
- 45 percent to the reclamation and development account, which funds programs in the Department of Environmental Quality, Department of Natural Resources and Conservation, and the State Library Commission. This account also receives portions of the RIGWA and the applicable portion of oil and gas tax proceeds
- 22 percent to the hazardous waste/CERCLA account, which funds remediation activities in the Department of Environmental Quality
- 7.5 percent to the environmental quality protection fund, which funds remediation activities in the Department of Environmental Quality

Fund Balances

Of the seven tracked funds that derive income from the RIT related sources, four are projected to have a negative balance at the end of the 2005 biennium based upon the Executive Budget. Positive fund balances are projected for the other three funds as shown in figure 7.

4

Figure 7

Related Expenditure Accounts (2005 biennium totals)	Renewable Resource (02272)	Reclamation & Development (02458)	Haz. Waste CERCLA (02070)	Environmental Quality Protect. (02162)	Groundwater Assessment (02289)****	Water Storage (02216)	Orphan Share (02472)
Further Distribution % of RIT Interest	25.5%	45%	22%	7.5%	0%	0%	0%
Beginning Fiscal 2003 Fund Balance (SABHRS)	\$1,735,291	\$1,892,201	\$316,945	\$522,451	\$252,454	\$1,355,112	\$4,224,786
Continuing appropriations	(3,021,609)	(4,543,177)	0	(150,000)	0	(511,136)	(2,135,381)
Reserved for long-term assets (outstanding loans)	(362,823)					(1,993,831)	
Long-term liability						836,946	
Fiscal 2003 appropriations	(1,578,116)	(3,388,647)	(967,846)	(826,407)	(666,000)	0	(26,018)
Fiscal 2003 Legislative Adjustments	0	1,000,000	0	0	0	0	(1,000,000)
Fiscal 2003 revenues (RATC, agency estimates)	<u>3,093,185</u>	<u>3,036,150</u>	<u>732,140</u>	<u>503,525</u>	<u>666,000</u>	<u>641,966</u>	<u>357,000</u>
Projected Available Fund Balance Beginning FY2004	(\$134,072)	(\$2,003,473)	\$81,239	\$49,569	\$252,454	\$329,057	\$1,420,387
Revenues (RATC, agency estimates)							
RIT Interest-direct	\$4,480,000	\$2,400,000			\$600,000	\$500,000	
RIT Interest-further allocation by above %	1,543,770	2,724,300	1,331,880	454,050			
RIGWA Proceeds		0			717,000		
Metal Mines Tax (7%)		0					
Sweep of Excess Coal Tax & Interest (from 04011)							
STIP/Other Interest			18,000	14,000		34,000	
Cost Recoveries				1,450,000			
Transfers			600,000				(600,000)
Administrative Fees	55,000						
State-owned Project Revenue	-	-	-	-	-	<u>173,000</u>	-
Total Revenues	<u>\$6,078,770</u>	<u>\$5,124,300</u>	<u>\$1,949,880</u>	<u>\$1,918,050</u>	<u>\$1,317,000</u>	<u>\$707,000</u>	<u>(\$600,000)</u>
Executive Appropriations							
House Bills 6 and 7 Grants (Executive Recommended)	\$4,000,000	\$2,400,000					
House Bill 6-Emergency/Private Grants (Recommended)							
MSU-Northern (statutorily appropriated)	480,000						
UM-Bureau of Mines					\$1,332,000		
DNRC-Conservation and Resource Devel. Division	649,282	1,000,000					
DNRC-Water Resources Division						1,870,000	
DEQ-Central Management		72,527	37,172	1,705			
DEQ-Planning, Prevention & Assistance			\$322,013				
DEQ-Enforcement		9,463					
DEQ-Remediation			424,032	1,903,195			2,664,296
DEQ-Permitting & Compliance		3,058,285	1,054,377				
Governor's Office-Flathead Basin Commission	90,020						
Judiciary-Water Court	1,444,788						
Library Commission-NRIS	0	367,412					
Library Commission-State Library Operations	415,110						
House Bill 13 (executive pay plan estimate)	-	-	-	-	-	-	-
Total Appropriations	<u>\$7,079,200</u>	<u>\$6,907,687</u>	<u>\$1,837,594</u>	<u>\$1,904,900</u>	<u>\$1,332,000</u>	<u>\$1,870,000</u>	<u>\$2,664,296</u>
Projected 2005 Biennium Ending Balance	<u>(\$1,134,502)</u>	<u>(\$3,786,860)</u>	<u>\$193,525</u>	<u>\$62,719</u>	<u>\$237,454</u>	<u>(\$833,943)</u>	<u>(\$1,843,909)</u>

**

The governor must report on the expenditures from the environmental contingency account in the executive budget. Expenditures are statutorily appropriated

Amounts are deposited to the oil & gas production damage mitigation account to bring the balance up to \$200,000 (82-11-161,MCA). All money in the account is statutorily appropriated.

Amounts are deposited to the groundwater assessment account to bring the balance up to \$666,000.

LFD
ISSUE

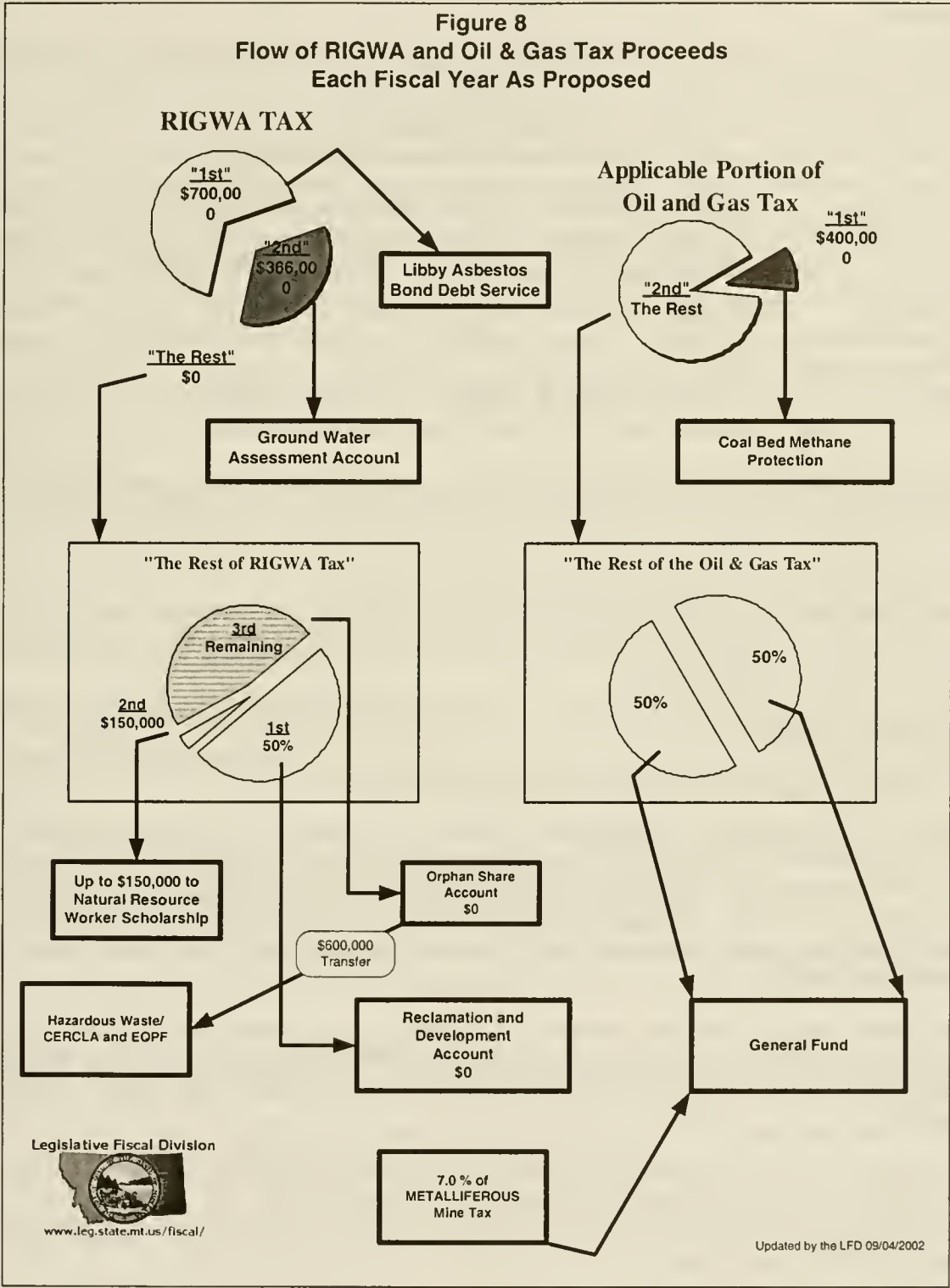
The executive proposes spending from accounts that derive interest from the RIT and related funding sources that exceeds anticipated revenues:

- The allocation of the applicable portion of oil and gas taxes that is used as a funding source for the reclamation and development and orphan share accounts is proposed to be diverted to the general fund through the 2005 biennium. This would have a significant effect on the ending fund balance of these two funds. Also included in that legislation is a change to divert the 7.0 percent portion of metalliferous mines tax away from the reclamation and development account into the general fund through the 2005 biennium.

**LFD
ISSUE
(continued)**

- Based upon Revenue and Transportation Committee revenue projections, \$1.0 million will be generated from RIGWA. If the first \$700,000 of the RIGWA tax was used for debt service, the reclamation and development, groundwater assessment, and orphan share accounts would have reduced projected ending fund balances. Further, SB 322, passed during the 2001 legislative session, modified 15-38-106, MCA, and created a natural resource workers education scholarship program. Based upon the level of RIGWA revenue projections, it is unlikely that this scholarship program would continue to receive distributions.
- The executive is proposing legislation that would allow the department to transfer up to \$600,000 of funds to the hazardous waste CERCLA and/or the environmental quality protection fund to provide a source of cash to fund appropriations made in HB 2. According to the proposed legislation, expenditures may not exceed the amount appropriated in HB 2. This proposed change is problematic for two reasons: 1) without a transfer to the hazardous waste CERCLA account, that account is projected to have a negative fund balance of \$406,475 at the end of the 2005 biennium; and 2) the transfer is proposed to come from the orphan share fund. Before a transfer out of that fund, it is projected to have a negative fund balance of \$1.2 million at the end of the 2005 biennium.
- The executive is proposing legislation to reduce the direct interest allocation to the Department of Fish, Wildlife, and Parks for future fisheries projects by \$100,000 each year of the biennium.

Figure 8 shows the impacts of the proposed changes:



As a consequence, the renewable resource, reclamation and development, water storage, and orphan share accounts are projected to have significant deficit fund balances. Figure 9 illustrates the impacts on the RIT fund balances of implementing tax and interest distribution changes. As shown, the "As Proposed" section represents changes for Libby debt service, diversion of the applicable portion of oil and gas tax and metalliferous mines tax to the general fund, and the

proposed decrease in the direct interest allocation to the Department of Fish, Wildlife, and Parks for future fisheries projects. In contrast, the current law section represents tax and interest distribution levels as they came out of the August 2002 special session.

Figure 9
Resource Indemnity Trust
Current Law / Proposed
Ending Fund Balance Difference on 2005 Projection

	Renewable Resource (02272)	Reclamation & Development (02458)	Haz. Waste CERCLA (02070)	Environmental Quality Protect. (02162)	Groundwater Assessment (02289)	Water Storage (02216)	Orphan Share (02472)
As Proposed	(\$1,134,502)	(\$3,786,860)	\$193,525	\$62,719	\$237,454	(\$833,943)	(\$1,843,909)
Current law (2005 projection (With Revenue Changes)	(1,185,502)	(704,520)	(450,475)	47,719	252,454	(833,943)	1,068,091
Difference	<u>\$51,000</u>	<u>(\$3,082,340)</u>	<u>\$644,000</u>	<u>\$15,000</u>	<u>(\$15,000)</u>	<u>\$0</u>	<u>(\$2,912,000)</u>

Decreased revenues and increasing appropriations over the last couple of biennia have spread the RIT-related funding sources thin. The legislature may wish to examine the following options when contemplating changes to the fiscal 2005 biennium:

Options:

- Reduce total appropriations. In the four RIT accounts with projected negative ending fund balances, the legislature could reduce agency appropriation levels by a percentage large enough that the projected fund balances will not be negative. Those percentages would be: 1) renewable resources, 16.0 percent; 2) reclamation and development, 54.8 percent; 3) water storage, 44.6 percent; 4) orphan share, 69.2 percent
- Enact statutory changes to add enough additional revenue into each of the identified funding sources to reflect a positive projected ending fund balance
- Approve all decision packages and/or legislation that propose to change the how the identified funding sources are utilized

Alternative Pay Plan – Department-wide move to Pay Plan 20

The department is one of several that recently adopted alternative classification and pay plan guidelines. The Montana Human Resources Competency Project (the Competency Project) was initiated by Governor Racicot's administration and approved by the 1997 legislature on the premise that it would provide a management tool to help state agencies respond to fast-changing human resource issues. The Competency Project provides an alternative classification and pay system with two concepts that provide agency management with increased human resource flexibility. These concepts are competencies and broadbanding.

Competencies are measurable and observable knowledge, skills, abilities, and behaviors that contribute to success in a job. The Broadband Plan (Pay Plan 20) is a two-tiered process of competencies and broad pay bands intended to provide agency flexibility. Broadbanding is a strategy for salary structure that consolidates a large number of pay grades into a few "broad bands"

The purpose of this pay plan was to develop a plan whereby employees and managers with a mechanism to 1) reward demonstrated competencies and service, and 2) to recruit and retain qualified employees. Citing authority given under 2-18-303, MCA and employee turnover of up to 50 percent, the department began an agency-wide migration to based pay plan 20 beginning with an increase in pay.

Although employees received a pay increase through HB 13, the department believed that its ability to recruit and retain qualified employees would be enhanced by increasing pay even more. In order to determine how much additional money to pay employees, the executive conducted a market survey using several widely used survey sources. Based upon that

data, type of position, length of service, and other factors such as historical turnover, employees were given an additional pay increase.

Even though pay increases that were given as part of the Broadband Plan implementation will increase personal service costs, the Office of Budget and Program Planning (OBPP) indicated that they developed a plan to offset the increases in personal service costs due to Broadband Plan pay increases. OBPP staff has indicated that the 2003 legislature could expect to see a method comparable to that used by the Department of Fish, Wildlife, and Parks (FWP) during the 2001 legislature to neutralize the fiscal impacts of broadbanding related pay increases. The method used by FWP involved a series of negative decision packages presented as part of the Executive Budget. These negative decision packages reduced base operations expenditures within the department by the amount of the increase in personal service costs attributable to market-based or compensation-based pay increases associated with the move to the Broadband Plan. Based upon data extracted from SABHRS, the move to pay plan 20 cost the department \$884,888, for all fund types, over the 2005 biennium. Over the biennium, the executive has proposed enough permanent reductions to fund this amount.

Additional Programs for General Fund Reduction Consideration

As part of the ongoing effort to address the current budget shortfall in the general fund, the department was asked to evaluate programs for inclusion on a list of core agency programs, important programs, and beneficial programs. The following is a list of beneficial programs that utilize general fund for a portion of program funding.

Rangeland Management

The Rangeland Resource Program encourages coordination and cooperation among private, state, and federal entities involved in range management, which cover 72,000,000 acres or nearly 70 percent of the state. The program receives guidance from the Rangeland Resource Executive Committee appointed by the Governor. DNRC funds a portion of a federal NRCS employee who serves as range program coordinator. Staff works with local grazing management groups to sponsor workshops, tours, and demonstration projects. In addition, the staff administers a rangeland improvement loan program for the purpose of improving rangelands.

The legislature may wish to consider the following:

- In part, this program provides education and training services to landowners throughout the state that are seeking to improve their private rangelands
- Similar educational opportunities exist from other sources such as colleges, universities, extension agencies, and the internet
- If users choose state government as the best source of these of rangeland educational and seminar services, private landowners and groups should be willing to pay a fee to obtain that knowledge
- Sponsorships for tours, camps and seminars could be obtained from the private sector
- This service is not a service that is core to the mission of the department
- There may be federal grants available that could be used to fund, partially or entirely, the costs of this program
- Elimination of general fund support would result in general fund savings of \$66,000 over the 2005 biennium

Options:

- Eliminate the general fund support and eliminate the program
- Eliminate the general fund support and direct the department to stop program activities until another funding source is obtained
- Collect fees for workshops, tours, demonstration projects, and other activities to offset general fund used by the program
- Do not eliminate the general fund support and retain program activities

Water Resource Education

The Water Resource Education program provides educational services centered on Montana's water laws and how to seek financial and technical support for improving local water management. Program goals include improving water management and water conservation, resolving water conflicts, and actively educating water users to make their own water management decisions.

The legislature may wish to consider the following:

- The Water Resource Education Program provides many types of water resource education to a number of water users and watershed groups across the state, including curricula on water rights, adjudication, Native American water rights, water conservation, Know Your Watershed workshops, water quality, best management practices and support for watershed groups
- The programs are individually designed and based on the educational needs of private water users and landowners
- Similar educational opportunities exist from other sources such as private attorneys, conservation groups, extension agencies, libraries, and the internet
- If users chose state government as the best source of these educational services, users should be willing to pay a fee to obtain that knowledge
- Conflict and dispute resolution services can be obtained from the private sector
- The program utilizes the general fund to serve a relatively narrow group of private landowners and water rights holders
- Elimination of general fund support would result in general fund savings of \$96,367 over the 2005 biennium

Options:

- Eliminate the general fund support and eliminate the program
- Eliminate the general fund support and direct the department to suspend program activities until another funding source is secured
- Direct the department to charge a fee commensurate with the educational activities provided and use the revenue to replace general fund
- Direct the department to conduct all educational activities in Helena
- Do not eliminate the general fund support and retain program activities

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	41.00	0.00	(3.00)	38.00	0.00	(3.00)	38.00	38.00
Personal Services	1,644,545	338,665	(134,685)	1,848,525	339,354	(134,400)	1,849,499	3,698,024
Operating Expenses	586,180	(2,646)	18,300	601,834	(79,402)	0	506,778	1,108,612
Equipment	0	0	0	0	0	0	0	0
Debt Service	257	0	0	257	0	0	257	514
Total Costs	\$2,230,982	\$336,019	(\$116,385)	\$2,450,616	\$259,952	(\$134,400)	\$2,356,534	\$4,807,150
General Fund	1,700,915	358,886	(134,685)	1,925,116	307,819	(134,400)	1,874,334	3,799,450
State/Other Special	425,067	(17,867)	0	407,200	(17,867)	0	407,200	814,400
Federal Special	105,000	(5,000)	18,300	118,300	(30,000)	0	75,000	193,300
Total Funds	\$2,230,982	\$336,019	(\$116,385)	\$2,450,616	\$259,952	(\$134,400)	\$2,356,534	\$4,807,150

Program Description

The Centralized Services Division provides managerial and administrative support services to the department through: 1) the Director's Office, which includes the director, legal staff, and public information; and 2) support services, which manages all financial activities, coordinates information systems, produces publications and graphic materials, and performs general administrative support services. Support services include fiscal affairs, data processing, personnel, legal, reception, and mail. Responsibilities include trust revenue collection and distribution and maintenance of ownership records for trust and non-trust state-owned land.

Program Narrative

Centralized Services Division	
Major Program Highlights	
○ The executive is requesting authority to re-wire a building ○ Targeted reductions include elimination of 3.00 FTE	
Major LFD Issues	
○ Reductions to meet target include reductions for pay plan 20	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Centralized Services						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,700,915	76.2%	\$ 1,925,116	78.6%	\$ 1,874,334	79.5%
02031 Forest Resources - Nursery	-	-	5,000	0.2%	5,000	0.2%
02039 Forestry-Fire Protection Taxes	42,772	1.9%	43,000	1.8%	43,000	1.8%
02052 Rangeland Improvement Loans	19,300	0.9%	15,000	0.6%	15,000	0.6%
02145 Broadwater O & M	8,600	0.4%	9,000	0.4%	9,000	0.4%
02280 Forest Resources-Timber Sales	71,940	3.2%	75,000	3.1%	75,000	3.2%
02340 Coal Sev. Tax Shared Ssr	5,300	0.2%	5,000	0.2%	5,000	0.2%
02430 Water Right Appropriation	26,000	1.2%	27,000	1.1%	27,000	1.1%
02432 Oil & Gas Era	62,500	2.8%	63,000	2.6%	63,000	2.7%
02449 Forest Resources-Forest Improv	28,779	1.3%	29,000	1.2%	29,000	1.2%
02450 State Lands Res Dev	80,000	3.6%	56,200	2.3%	56,200	2.4%
02825 Water Well Contractors	5,300	0.2%	5,000	0.2%	5,000	0.2%
02938 Trust Fund Revenues	74,576	3.3%	75,000	3.1%	75,000	3.2%
03255 Csd Federal Indirect	105,000	4.7%	118,300	4.8%	75,000	3.2%
Grand Total	\$ 2,230,982	100.0%	\$ 2,450,616	100.0%	\$ 2,356,534	100.0%

The Centralized Services program is funded primarily with general fund, resource development funds, coal severance taxes, and federal indirect grant reimbursements. In addition, the department charges an overhead rate to other divisions to recover costs.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					421,300					422,016
Vacancy Savings					(82,635)					(82,662)
Inflation/Deflation					8,466					8,816
Fixed Costs					33,722					(54,304)
Total Statewide Present Law Adjustments					\$380,853	\$293,866				
DP 5 - CSD Operating	0.00	(21,034)	(23,800)	0	(44,834)	0.00	(10,114)	(23,800)	0	(33,914)
Total Other Present Law Adjustments										
	0.00	(\$21,034)	(\$23,800)	\$0	(\$44,834)	0.00	(\$10,114)	(\$23,800)	\$0	(\$33,914)
Grand Total All Present Law Adjustments					\$336,019	\$259,952				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 5 - CSD Operating - The Executive Budget includes a request for an operating adjustment for rent. The DNRC office is located in a non-state building and rent is not shown as a fixed cost within Department of Administration schedules. A contractual agreement through fiscal year 2005 for the USF&G building in Helena stipulates a rate increase. After the requested increase, rent will cost \$153,327 in fiscal 2004 and \$164,025 in fiscal 2005.

In addition, reductions were taken for separation allowance, costs for the trust land management system, and parking. \$37,930 was deducted for a one time only allowance, \$23,800 was deducted for cost savings involved in moving the database from a mainframe to a desktop platform, and \$1,000 was deducted for parking downtown.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 22 - Re-wiring USF&G Building										
21	0.00	0	0	18,300	18,300	0.00	0	0	0	0
DP 7020 - Reduction to Meet Target										
21	(3.00)	(134,685)	0	0	(134,685)	(3.00)	(134,400)	0	0	(134,400)
Total	(3.00)	(\$134,685)	\$0	\$18,300	(\$116,385)	(3.00)	(\$134,400)	\$0	\$0	(\$134,400)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 22 - Re-wiring USF&G Building - The Executive Budget includes a request for authority to complete a re-wiring project at DNRC headquarters located in the USF&G building in Helena. The basement of the USF&G building houses the Reserved Water Rights Compact Commission, the Conservation and Resource Development Division, the Oil and Gas Division, and the Centralized Services Division Information Technology Bureau. Nearly all the data network wiring in the basement is "Category 3" wiring that is relatively slow for routine data transmission and is incapable of high-speed transmission replacing the Category 3 wiring in the basement of the USF&G building would allow headquarters staff to move to high-speed data transmission. The cost to rewire the 60 network wall jacks will cost \$18,300.

LFD ISSUE

The executive is requesting the appropriation be designated one-time only in nature.

DP 7020 - Reduction to Meet Target - The Executive Budget includes a request to eliminate 3.00 FTE and associated funding -- the deputy director, a receptionist, and an information support technician. Included in the reduction is \$60,000 each year of the biennium to fund the move to pay plan 20.

LFD ISSUE

Please see the agency-wide issue on the move to pay plan 20.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	17.50	0.00	3.00	20.50	0.00	3.00	20.50	20.50
Personal Services	723,801	97,760	127,006	948,567	118,051	126,769	968,621	1,917,188
Operating Expenses	280,240	66,634	304,290	651,164	68,502	110,290	459,032	1,110,196
Equipment	22,314	2,686	61,000	86,000	2,686	0	25,000	111,000
Total Costs	\$1,026,355	\$167,080	\$492,296	\$1,685,731	\$189,239	\$237,059	\$1,452,653	\$3,138,384
State/Other Special	922,411	271,024	492,296	1,685,731	293,183	237,059	1,452,653	3,138,384
Federal Special	103,944	(103,944)	0	0	(103,944)	0	0	0
Total Funds	\$1,026,355	\$167,080	\$492,296	\$1,685,731	\$189,239	\$237,059	\$1,452,653	\$3,138,384

Program Description

The Oil and Gas Conservation Division administers the Montana oil and gas conservation laws to promote conservation and prevent waste in the recovery of these resources through regulation of exploration and production of oil and gas. The division: 1) issues drilling permits; 2) classifies wells; 3) establishes well spacing units and pooling orders; 4) inspects drilling, production, and seismic operations; 5) investigates complaints; 6) does engineering studies; 7) determines incremental production for enhanced recovery and horizontal wells to implement the tax incentive program for those projects; 8) operates the underground injection control program; 9) plugs orphan wells; and 10) collects and maintains complete well data and production information.

Program Narrative

Oil and Gas Conservation Division Major Program Highlights	
o	Program is funded entirely with state special revenue
o	Seeking authority for coal bed methane activity

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Oil & Gas Conservation Div.						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02432 Oil & Gas Era	\$ 922,411	89.9%	\$ 1,685,731	100.0%	\$ 1,452,653	100.0%
03356 Oil & Gas Federal	103,944	10.1%	-	-	-	-
Grand Total	\$ 1,026,355	100.0%	\$ 1,685,731	100.0%	\$ 1,452,653	100.0%

The state special revenue that funds this program comes from oil and gas well taxes and class II injection well annual operating fees. By statute (15-36-324, MCA), certain percentages of the oil production taxes and natural gas taxes are deposited to the account for the board's use. Under 82-11-131, MCA, the board can set the privilege and license tax up to 3/10 of 1 percent of the market value of each barrel of crude petroleum produced and of each 10,000 cubic feet of natural gas produced to comply with 15-36-324, MCA. Section 82-11-137, MCA, provides for a maximum \$300 annual operating fee for each class II injection well. The Board of Oil and Gas Conservation set the fee at \$200. State special

revenue provides 100 percent of the funding.

Present Law Adjustments											
-----Fiscal 2004-----						-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services					106,804					111,396	
Vacancy Savings					(33,225)					(33,408)	
Inflation/Deflation					2,368					3,139	
Fixed Costs					1,947					3,669	
Total Statewide Present Law Adjustments					\$77,894						\$84,796
DP 3 - Oil & Gas Operating Adjustment	0.00	0	89,186	0	89,186	0.00	0	104,443	0	104,443	
Total Other Present Law Adjustments											
	0.00	\$0	\$89,186	\$0	\$89,186	0.00	\$0	\$104,443	\$0	\$104,443	
Grand Total All Present Law Adjustments					\$167,080						\$189,239

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3 - Oil & Gas Operating Adjustment - The Executive Budget includes a request for personal services increases including: 1) board member per diem of \$8,200 per year; 2) exempt salary and associated benefits increases of \$14,981 in fiscal 2004 and \$30,863 in fiscal 2005; and 3) overtime of \$1,000 per year. Operating expense increases include: 1) \$60,128 per year to annualize base year expenditures for four on-going contracts (legal services, database consultants and janitorial for Billings and Helena offices); 2) \$1,191 in fiscal 2004 and \$1,566 in fiscal 2005 for increased rent costs for the Billings and Shelby offices; and 3) \$1,000 in fiscal 2004 for heating system repairs. If approved, additional authority for equipment would be added to the base and used to purchase one new field inspector truck each year of the biennium.

New Proposals											
-----Fiscal 2004-----						-----Fiscal 2005-----					
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 8 - Re-Establish FTE	22	3.00	0	162,296	0	162,296	3.00	0	137,059	0	137,059
DP 23 - Heating System Replacement-OTO	22	0.00	0	30,000	0	30,000	0.00	0	0	0	0
DP 51 - Coal Bed Methane Impounded Produced Water Study	22	0.00	0	200,000	0	200,000	0.00	0	0	0	0
DP 52 - Historical Data Acquisition Project	22	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
Total	3.00	\$0	\$492,296	\$0	\$492,296	3.00	\$0	\$237,059	\$0	\$237,059	

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 8 - Re-Establish FTE - The Executive Budget includes a request to add 3.00 FTE and related authority for operations expenses to address workload increases associated with increased coal bed methane activity. If approved, 1.00 FTE would be an environmental coordinator to do environmental assessments on drilling permits. According to the executive, the number of drilling permits processed has doubled from last biennium and coal bed methane permitting is expected to increase in the 2005 biennium. The other 2.00 FTE would be field inspectors assigned to both coal bed methane and general regulatory activities. The Board establishes the salary of the environmental coordinator as described in 2-15-3303 (3) MCA. These positions had been in the budget, but were deleted by the 2001 legislature after being identified as vacant

and thereby subject to the Cobb amendment in HB2. The equipment portion of the request would be used for a new field inspector truck.

DP 23 - Heating System Replacement-OTO - The Executive Budget includes a request for authority to replace the heating, ventilation, and air conditioning system in the Billings office.

**LFD
COMMENT**

At the request of the executive, the legislature may wish to designate this request as one-time-only in nature.

DP 51 - Coal Bed Methane Impounded Produced Water Study - The Executive Budget includes a request for biennial appropriation authority to study the potential effects of long-term disposal of produced coal bed methane (CBM) water by infiltration ponds and the design criteria for construction, monitoring, and operation of such impoundments permitted by the Board of Oil & Gas Conservation. The board has applied for an additional \$200,000 for the project through the DNRC Reclamation and Development Grant Program. If approved, the project would use the services of an environmental/engineering consultant to develop a project plan, construct monitoring wells, analyze data, and assist the board in developing rules and regulations for the construction and operation of infiltration ponds.

DP 52 - Historical Data Acquisition Project - The Executive Budget includes a request for authority to acquire and maintain historical oil and gas data, well logs, and field information and place this data into electronically retrievable formats. If approved, the executive would utilize contractors and purchase imaging hardware/software to retrieve, image, enter historical data, and store it electronically. After pre-1990 data is complete, existing staff and temporary employees would be used to maintain the data

Language Recommendations

The executive is recommending the following language:

"The department is authorized to decrease state special revenue money in the underground injection control program and increase federal special revenue money by a like amount when the amount of federal EPA funds available for the program becomes known. Any federal special revenue is to be spent before state special revenue."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	22.00	0.50	(1.00)	21.50	0.50	(1.00)	21.50	21.50
Personal Services	1,035,489	130,895	(48,810)	1,117,574	133,834	(48,730)	1,120,593	2,238,167
Operating Expenses	822,712	68,897	0	891,609	(4,527)	0	818,185	1,709,794
Equipment	52,259	0	0	52,259	0	0	52,259	104,518
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	213,373	0	0	213,373	0	0	213,373	426,746
Grants	895,365	(302,154)	0	593,211	(310,961)	0	584,404	1,177,615
Benefits & Claims	500,000	500,000	0	1,000,000	500,000	0	1,000,000	2,000,000
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$3,519,198	\$397,638	(\$48,810)	\$3,868,026	\$318,346	(\$48,730)	\$3,788,814	\$7,656,840
General Fund	1,853,238	530,733	(48,810)	2,335,161	534,956	(48,730)	2,339,464	4,674,625
State/Other Special	1,488,252	(155,944)	0	1,332,308	(257,716)	0	1,230,536	2,562,844
Federal Special	177,708	22,849	0	200,557	41,106	0	218,814	419,371
Total Funds	\$3,519,198	\$397,638	(\$48,810)	\$3,868,026	\$318,346	(\$48,730)	\$3,788,814	\$7,656,840

Program Description

The Conservation and Resource Development Division provides technical, administrative, financial, and legal assistance to Montana's 58 conservation districts by administering the Conservation District Act, Montana Rangeland Resources Act, and the Natural Streambed and Land Preservation Act. The division also manages several loan and grant programs for local communities, local governments, state agencies, and private citizens. The programs include the State Revolving Fund, which currently includes \$150 million loaned to communities for water and waste water systems, Coal Severance Tax loans to governmental entities totaling \$45 million, and private loans for \$16.5 million. Grant programs administered by the division include the Reclamation Development, Renewable Resource, and Conservation District Grant programs.

Program Narrative

Conservation and Resource Development Division
Major Program Highlights
○ General fund is the primary funding source and is centered in two bureaus ○ This source supplies over 60 percent of the funding for the program ○ Executive is requesting \$1.0 million over the biennium to address the Crow Tribe settlement ○ Targeted reductions include elimination of 1.00 FTE
Major LFD Issues
○ Targeted reductions included as part of the move to pay plan 20 ○ Some RIT related funds are projected to have negative ending fund balances

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Conservation/Resource Dev Div						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,853,238	52.7%	\$ 2,335,161	60.4%	\$ 2,339,464	61.7%
02052 Rangeland Improvement Loans	21,558	0.6%	22,000	0.6%	22,000	0.6%
02270 Treasure State Endowment	26,000	0.7%	28,000	0.7%	26,000	0.7%
02272 Renewable Resources Grnt/Loans	316,579	9.0%	331,002	8.6%	318,280	8.4%
02316 Go94B/Ban 93D Admin	12,943	0.4%	15,093	0.4%	16,770	0.4%
02340 Coal Sev. Tax Shared Ssr	627,134	17.8%	328,170	8.5%	319,443	8.4%
02433 Grazing District Fees	28,043	0.8%	108,043	2.8%	28,043	0.7%
02458 Reclamation & Development	455,995	13.0%	500,000	12.9%	500,000	13.2%
03178 Res Dev & Cons - Fed	35,650	1.0%	35,650	0.9%	35,650	0.9%
03232 Drinking Water Srf Ffy 00	77,501	2.2%	90,000	2.3%	99,934	2.6%
03245 Wastewater Treatment Grant	64,557	1.8%	74,907	1.9%	83,230	2.2%
Grand Total	<u>\$ 3,519,198</u>	<u>100.0%</u>	<u>\$ 3,868,026</u>	<u>100.0%</u>	<u>\$ 3,788,814</u>	<u>100.0%</u>

This program is primarily funded with general fund, RIT accounts, coal severance taxes, miscellaneous state special revenue funds, federal drinking water and water pollution control funds, and miscellaneous federal sources. The Natural Resource Development Bureau utilizes 46.9 percent of the division general fund to administer grant and loan programs, provide assistance to conservation districts for the administration of water reservations, and assist landowners to develop new irrigation. The programs include the Reclamation and Development, Renewable Resource, Treasure State Endowment, Conservation District Water Reservation, and Irrigation Development programs.

The Conservation District Bureau utilizes 53.1 percent of the available general fund to assist Montana conservation and grazing districts. The programs include Conservation District Supervision, Watershed Efforts and Projects, Rolling Rivers Trailers, Rangeland Management, Grazing District Supervision, Natural Resource Conservation Education, Grants, and Salinity Control Programs.

LFD ISSUE

This program contains base funding from the reclamation and development and renewable resources accounts. Both of these accounts are projected to have significant negative balances at the end of the 2005 biennium. For more information, please see the agency wide RIT issue in the overview section.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					158,547					161,645
Vacancy Savings					(47,760)					(47,884)
Inflation/Deflation					(7)					985
Fixed Costs					6,124					9,061
Total Statewide Present Law Adjustments					\$116,904					\$123,807
DP 12 - Crow Tribe Settlement	0.00	500,000	0	0	500,000	0.00	500,000	0	0	500,000
DP 28 - Grass Conservation Commission	0.00	0	80,000	0	80,000	0.00	0	0	0	0
DP 230 - Coal Severance Tax Shared Acct Reduction	0.00	0	(298,964)	0	(298,964)	0.00	0	(307,691)	0	(307,691)
DP 7009 - Operating and Special Session Adjustments	0.50	(26,801)	4,093	22,406	(302)	0.50	(25,560)	3,770	24,020	2,230
Total Other Present Law Adjustments	0.50	\$473,199	(\$214,871)	\$22,406	\$280,734	0.50	\$474,440	(\$303,921)	\$24,020	\$194,539
Grand Total All Present Law Adjustments					\$397,638					\$318,346

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 12 - Crow Tribe Settlement - The Executive Budget includes a request for Crow Tribe settlement payments. The June 1999 Special Session of the Montana legislature approved the water rights and coal severance tax litigation settlement with the Crow Tribe. The state also authorized a "contribution to settlement" of \$15 million. "The State agrees to contribute the sum of \$15 million, in equal annual installments for a period of no more than 15 years beginning July 1, 1999, to a fund for the use and benefit of the Tribe." Pending final effectiveness of the compact, these funds are paid into escrow. Contract payments of \$500,000 were paid each year of the in the 2003 biennium. Per the escrow agreement, increasing the payments to \$1.0 million in fiscal 2004 and \$1.0 million fiscal 2005 for each year of the biennium will put the state in a better position to fund the agreement by the deadline date. This is a \$500,000 increase each year over the base expenditure amount.

DP 28 - Grass Conservation Commission - The Executive Budget includes a request for a biennial appropriation adjustment due to a vacant executive secretary position. If approved, funding would be provided for contracted services, travel, communications, and supplies and materials associated with the executive secretary position.

DP 230 - Coal Severance Tax Shared Acct Reduction - The Executive Budget includes a request to reduce the coal severance tax shared state special revenue account in grants by \$298,964 in fiscal 2004 and \$307,691 in fiscal 2005. If approved, proposed legislation would reduce the allocation from the coal severance tax shared account from 7.75 percent to 4.18 percent. The current amounts proposed for reduction are based upon executive revenue estimates.

LFD COMMENT

Conservation districts use Coal Tax Funds (CST) for basic operations and in a number of programs that are administered at the local level. The CST funds are used for administration of the 310 permitting law³, legal and engineering support, and support of watershed projects at the local level. For more information on the coal severance tax shared state special revenue account, please see the narrative for the Community Development Division within the Department of Commerce.

DP 7009 - Operating and Special Session Adjustments - The Executive Budget includes a request to add 0.50 FTE and associated operating authority. According to the executive, adding 0.50 FTE would help administer and account for the revolving program loans. One position was vacant for nine months because of recruiting problems in the Irrigation Program. Therefore, full operating costs are not reflected in the base. In addition to the FTE, the executive is proposing the following:

- o Rent and janitorial expenses have increased in Miles City, Billings, and Helena. The buildings, which house the Conservation Districts and Resource Development Bureau, are not-state owned and rent is increasing an average of 5 percent in the next biennium
- o Contracted services are expected to increase because of an increased workload in the reclamation and development and grants program
- o The Irrigation Development program was in a startup phase during fiscal 2002. As a result, the base year reflects only three months of operating expenses due to nine months of vacant FTE. Consequently, communications and travel are understated in the base expenditures
- o 310 grants to conservation districts are reduced by \$3,190 in fiscal 2004 and \$3,270 in fiscal 2005. Contract expenditures for the Natural Resource Conservation Service (NRCS) are reduced by \$25,000 each year and the Yellowstone River contract by \$10,000 each year
- o Special session reductions of \$35,000 each fiscal year are continued

New Proposals		Fiscal 2004				Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7020 - Reductions to Meet Target										
23	(1.00)	(48,810)	0	0	(48,810)	(1.00)	(48,730)	0	0	(48,730)
Total	(1.00)	(\$48,810)	\$0	\$0	(\$48,810)	(1.00)	(\$48,730)	\$0	\$0	(\$48,730)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7020 - Reductions to Meet Target - The Executive Budget includes a request for eliminate 1.00 FTE agricultural engineering specialist position that designs irrigation systems. The proposed reductions include \$18,000 each year of the biennium for the move to Pay Plan 20.

LFD ISSUE

Please see agency wide issues related to the move to pay plan 20.

Language Recommendations

The executive is recommending the following language:

"The department is appropriated up to \$600,000 for the 2005 biennium from the state special revenue account established in 85-1-604 for the purchase of prior liens on property held as loan security as required by 85-1-618."

"The department is authorized to decrease federal special revenue money in the pollution control and/or drinking water revolving fund loan programs and increase state special revenue money by a like amount within the special administration account when the amount of federal EPA CAP funds have been expended or federal funds and bond proceeds will be used for other program purposes."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	109.50	0.00	(1.00)	108.50	0.00	(1.00)	108.50	108.50
Personal Services	4,892,576	555,663	(78,465)	5,369,774	562,336	(78,329)	5,376,583	10,746,357
Operating Expenses	1,817,530	2,266,533	121,869	4,205,932	(61,907)	134,549	1,890,172	6,096,104
Equipment	8,250	0	0	8,250	0	0	8,250	16,500
Capital Outlay	100	0	0	100	0	0	100	200
Grants	0	0	0	0	0	0	0	0
Debt Service	388,654	81,089	0	469,743	81,089	0	469,743	939,486
Total Costs	\$7,107,110	\$2,903,285	\$43,404	\$10,053,799	\$581,518	\$56,220	\$7,744,848	\$17,798,647
General Fund	6,029,101	450,534	(139,596)	6,340,039	504,931	(134,780)	6,399,252	12,739,291
State/Other Special	918,374	2,443,117	183,000	3,544,491	127,367	191,000	1,236,741	4,781,232
Federal Special	159,635	9,634	0	169,269	(50,780)	0	108,855	278,124
Total Funds	\$7,107,110	\$2,903,285	\$43,404	\$10,053,799	\$581,518	\$56,220	\$7,744,848	\$17,798,647

Program Description

The Water Resources Division is responsible for many programs associated with the uses, development, and protection of Montana's water. It manages and maintains the state-owned dams, reservoirs, and canals. The division also develops and recommends in-state, interstate, and international water policy to the director, Governor, and legislature. The division consists of an administration unit and four bureaus: Water Management Bureau, Water Rights Bureau, State Water Projects Bureau, and the Water Operations Bureau.

Program Narrative

Water Resources Division Major Program Highlights	
○ General fund supplies 71.6 percent of the program funding ○ The executive is seeking authority to repair five dams ○ Targeted reductions include elimination of 1.00 FTE	
Major LFD Issues	
○ A continuation of a water rights verification project is estimated to cost \$488,000 through the end of fiscal 2006	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Water Resources Division						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 6,029,101	84.8%	\$ 6,340,039	63.1%	\$ 6,399,252	82.6%
02104 Miscellaneous State Spec Rev	232,244	3.3%	308,205	3.1%	308,205	4.0%
02145 Broadwater O & M	311,589	4.4%	351,248	3.5%	319,498	4.1%
02177 Cst 90 A Fisheries Mitigation	-	-	64,000	0.6%	-	-
02216 Water Storage St Sp Rev Acct	-	-	1,870,000	18.6%	-	-
02351 Water Project Lands Lease Acct	1,850	0.0%	10,500	0.1%	10,500	0.1%
02409 General License	41,041	0.6%	65,000	0.6%	65,000	0.8%
02430 Water Right Appropriation	115,539	1.6%	303,000	3.0%	311,000	4.0%
02470 State Project Hydro Earnings	156,410	2.2%	511,538	5.1%	161,538	2.1%
02825 Water Well Contractors	59,701	0.8%	61,000	0.6%	61,000	0.8%
03034 Water Resources-Fed	23,000	0.3%	23,000	0.2%	23,000	0.3%
03094 State Assistance Program	112,596	1.6%	61,318	0.6%	61,318	0.8%
03280 Tongue River Fed	-	-	60,794	0.6%	-	-
03308 Water Resources - Federal	24,039	0.3%	24,157	0.2%	24,537	0.3%
Grand Total	\$ 7,107,110	100.0%	\$ 10,053,799	100.0%	\$ 7,744,848	100.0%

The Water Resources Division is funded primarily with general fund, state special revenue, and a minor amount of federal funds.

**LFD
ISSUE**

This program contains a funding request from the water storage account. This account is projected to have a significant negative balance at the end of the 2005 biennium. For more information, please see the agency wide RIT issue in the overview section.

Present Law Adjustments

	Fiscal 2004				Fiscal 2005					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					776,837					783,788
Vacancy Savings					(226,774)					(227,052)
Inflation/Deflation					33,468					45,861
Fixed Costs					192,563					218,513
Total Statewide Present Law Adjustments					\$776,094	\$821,110				
DP 10 - WRD Operating Expense Adjustments	0.00	(318,292)	86,689	0	(231,603)	0.00	(312,124)	86,689	0	(225,435)
DP 13 - Restore-OTO-State Water Project Rehabilitation	0.00	0	2,220,000	60,794	2,280,794	0.00	0	0	0	0
DP 20 - Broadwater Hydropower Project Maintenance	0.00	0	96,000	0	96,000	0.00	0	0	0	0
DP 7025 - Lease Vehicle Reduction	0.00	(18,000)	0	0	(18,000)	0.00	(14,157)	0	0	(14,157)
Total Other Present Law Adjustments										
	0.00	(\$336,292)	\$2,402,689	\$60,794	\$2,127,191	0.00	(\$326,281)	\$86,689	\$0	(\$239,592)
Grand Total All Present Law Adjustments					\$2,903,285	\$581,518				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 10 - WRD Operating Expense Adjustments - The Executive Budget includes a request to fund overtime, per diem, and other adjustments for operating expense items throughout the division. If approved, combined reductions would reduce general fund by \$630,416.

DP 13 - Restore-OTO-State Water Project Rehabilitation - The Executive Budget includes a request to restore a one-time biennial appropriation request approved by the 2001 legislature for rehabilitation and repairs associated with the Nevada Creek Dam, North Fork Smith River Dam, Nilan North Dam, Tongue River Dam and Broadwater Hydropower Dam.

- Nevada Creek Dam is an earthen embankment, high-hazard dam that was built in 1938. The concrete in the existing spillway is severely deteriorated and would not withstand a large flood. In the event of failure, there is potential for devastating impact since this project is located on the headwaters of the Blackfoot River, and the flood wave could result in loss of life and would likely cause damage downstream to Milltown and beyond
- The North Fork of the Smith Dam is an earthen embankment, high-hazard dam that was built in 1936. It was inspected by the U.S. Corps of Engineers (COE) in 1980, under the National Dam Inspection Program and found to be unsafe due to inadequate spillway capacity under the dam safety standards in effect at that time. Additionally, the existing spillway concrete has deteriorated to the point that minor repairs are not economical or feasible. If a large flood occurs at this site, the inadequate capacity of the spillway could result in a flood overtopping the earthen dam and creating the likelihood of failure and the loss of life and property
- The Nilan North Dam is an earthen embankment, high-hazard structure constructed in 1952. The outlet structure is in very poor condition, having deteriorated to the point that additional small repairs and patching are not economical or feasible. The accelerating deterioration is primarily a function of continuous freeze-thaw damage and severe cracking. If approved, the repair work would involve replacing the outlet structure
- The Tongue River Dam is undergoing the final stages of repairs and rehabilitation to ensure that the project meets dam safety standards
- The Broadwater Hydropower Dam has bank erosion problems resulting in fence destruction, public access safety concerns, and backhoe operation hazard near the canal intake. If approved, funding would be used to construct stabilizing walls of concrete or landscaping blocks, install new fencing, and replace bridge decking on the dam.

**LFD
ISSUE**

The legislature may wish to consider not approving the portion of this decision package that contains a funding request from the water storage account. If approved as requested, projections indicate that the water storage account would be driven into a negative position. For a more detailed discussion of the water storage account, please see the agency wide issue on the RIT in the agency overview section.

DP 20 - Broadwater Hydropower Project Maintenance - The Executive Budget includes a request for a biennial appropriation to fund fisheries mitigation work required by the FERC operating license and would be used for fisheries habitat evaluation, mitigation, and improvement at the Broadwater Hydropower Plant. If approved, authority would be used to contract with the Department of Fish, Wildlife and Parks (FWP) to perform annual fish population studies and evaluate completed habitat improvement projects built to mitigate impacts from the construction of the power plant.

DP 7025 - Lease Vehicle Reduction - The Executive Budget includes a request to reduce the division's lease vehicle fleet by four vehicles in the 2005 biennium resulting in a general fund reduction of \$32,157.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	
DP 19 - Restore-OTO-Water Rights Verification Project										
24	0.00	0	160,000	0	160,000	0.00	0	168,000	0	168,000
DP 7002 - Applicants Pay Water Rights Notice Costs										
24	0.00	(23,000)	23,000	0	0	0.00	(23,000)	23,000	0	0
DP 7020 - Reduction to Meet Target										
24	(1.00)	(116,596)	0	0	(116,596)	(1.00)	(111,780)	0	0	(111,780)
Total	(1.00)	(\$139,596)	\$183,000	\$0	\$43,404	(1.00)	(\$134,780)	\$191,000	\$0	\$56,220

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 19 - Restore-OTO-Water Rights Verification Project - The Executive Budget includes a request for authority to add modified-level FTE to continue the verification of old water right permits. If approved, the temporary employees would be used to analyze completed questionnaires sent to water users, verifying that the permitted projects are completed and how much water they are actually using.

LFD ISSUE The 2001 legislature authorized the first two years of a projected 4-year proposal to complete the remaining 8,000 of these verifications using additional temporary department staff located in WRD regional offices. If the legislature decides to continue with this project they should be aware that it is an on-going project, and would cost an additional \$488,000 over the next three fiscal years.

DP 7002 - Applicants Pay Water Rights Notice Costs - The Executive Budget includes a request to require applicants for water rights to pay public notice costs for their applications. If approved, general fund would be replaced with state special authority of \$46,000 over the biennium.

LFD COMMENT This adjustment is contingent on amending ARM 36.12.103 to require that applicants pay public notice costs on their water right applications.

DP 7020 - Reduction to Meet Target - The Executive Budget includes a request to eliminate a 1.00 FTE civil engineering specialist position. Adjustments have been made in the Water Rights Bureau, Regional Offices and Water Projects Bureau that reflect the elimination of 1.00 FTE general fund which helped the division convert to pay plan 20.

Language Recommendations

The executive is recommending the following language:

"During the 2005 biennium, up to \$1 million of funds currently in or to be deposited in the Broadwater replacement and renewal account is appropriated to the department for repairing or replacing equipment at the Broadwater hydropower facility."

"During the 2005 biennium, up to \$70,000 of interest earned on the Broadwater water users account is appropriated to the department for the purpose of repair, improvement, or rehabilitation of the Broadwater-Missouri diversion project."

"During the 2005 biennium, up to \$500,000 of funds currently in or to be deposited in the state project hydropower earnings account is appropriated for the purpose of repairing, improving, or rehabilitating department state water projects."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	11.00	0.00	0.00	11.00	0.00	0.00	11.00	11.00
Personal Services	565,772	41,770	0	607,542	46,639	0	612,411	1,219,953
Operating Expenses	149,210	4,037	0	153,247	7,187	0	156,397	309,644
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$714,982	\$45,807	\$0	\$760,789	\$53,826	\$0	\$768,808	\$1,529,597
General Fund	714,982	45,807	0	760,789	53,826	0	768,808	1,529,597
State/Other Special	0	0	0	0	0	0	0	0
Total Funds	\$714,982	\$45,807	\$0	\$760,789	\$53,826	\$0	\$768,808	\$1,529,597

Program Description

The Reserved Water Rights Compact Commission was created by the legislature in 1979 as part of the water rights adjudication effort. It consists of four members appointed by the Governor, two by the President of the Senate, two by the Speaker of the House of Representatives, and one by the Attorney General. Members serve for four years. The commission negotiates water rights with the Indian tribes and federal agencies, which claim federal reserved water rights within the state, to establish a formal agreement (compact) on the amount of water to be allocated to each interest.

Program Narrative

Reserved Water Rights Compact Commission Major Program Highlights	
o	The executive is seeking funding to pay for per diem for nine commission members
o	At \$1.5 million, this program is funded entirely with general fund

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Reserved Water Rights Comp Com						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 714,982	100.0%	\$ 760,789	100.0%	\$ 768,808	100.0%
Grand Total	\$ 714,982	100.0%	\$ 760,789	100.0%	\$ 768,808	100.0%

The Reserved Water Rights Compact Commission is funded entirely with general fund.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				62,398					67,468	
Vacancy Savings				(25,128)					(25,329)	
Inflation/Deflation				873					1,049	
Fixed Costs				(1,173)					(761)	
Total Statewide Present Law Adjustments				\$36,970					\$42,427	
DP 6 - RWRCC Operating Adjustment	0.00	8,837	0	0	8,837	0.00	11,399	0	0	11,399
Total Other Present Law Adjustments										
	0.00	\$8,837	\$0	\$0	\$8,837	0.00	\$11,399	\$0	\$0	\$11,399
Grand Total All Present Law Adjustments				\$45,807					\$53,826	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 6 - RWRCC Operating Adjustment - The Executive Budget includes a request for authority to pay per diem for nine Reserved Water Right Compact Commission (RWRCC) members. If approved, this authority would be used to pay mileage and per diem for attendance at quarterly commission meetings as well as frequent negotiating sessions. In addition, an operating adjustment would be used for increased rent. The DNRC office is located in a non-state building and rent is not shown as a fixed cost within the Department of Administration schedules. The rent increase is based on a contractual agreement that runs through fiscal 2005 for the USF&G building in Helena.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	291.36	0.00	(2.60)	288.76	0.00	(2.60)	288.76	288.76
Personal Services	10,764,915	1,902,403	(128,830)	12,538,488	1,918,907	(128,842)	12,554,980	25,093,468
Operating Expenses	5,938,011	226,393	(9,942)	6,154,462	285,071	(8,942)	6,214,140	12,368,602
Equipment	700,346	(37,190)	0	663,156	(37,240)	0	663,106	1,326,262
Capital Outlay	354	0	0	354	0	0	354	708
Grants	0	0	0	0	0	0	0	0
Transfers	389,169	9,170	0	398,339	9,170	0	398,339	796,678
Debt Service	114,394	0	0	114,394	0	0	114,394	228,788
Total Costs	\$17,907,189	\$2,100,776	(\$138,772)	\$19,869,193	\$2,175,908	(\$137,784)	\$19,945,313	\$39,814,506
General Fund	5,906,892	801,115	(216,625)	6,491,382	821,067	(215,949)	6,512,010	13,003,392
State/Other Special	10,863,292	1,064,200	(8,722)	11,918,770	1,115,793	(8,410)	11,970,675	23,889,445
Federal Special	1,137,005	235,461	86,575	1,459,041	239,048	86,575	1,462,628	2,921,669
Total Funds	\$17,907,189	\$2,100,776	(\$138,772)	\$19,869,193	\$2,175,908	(\$137,784)	\$19,945,313	\$39,814,506

Program Description

The Forestry Division is responsible for planning and implementing forestry programs statewide. Forestry responsibilities include protecting Montana's natural resources from wildfire, regulating forest practices, and providing a variety of services to private forest landowners. Specific programs include:

- o Fire and Aviation Management - Protecting 50 million acres of state and private forest and watershed lands from wildfire through a combination of direct protection and county support
- o Forest Practice Regulation - Enforcing Montana's streamside management zone regulations and monitoring the voluntary best management practices program on all forests in Montana
- o Administering Montana's Fire Hazard Reduction Law - Ensuring that the fire hazard created by logging and other forest management operations on private forest lands is reduced, or that additional fire protection is provided until the hazard is reduced
- o Providing Forestry Services - Providing technical forestry assistance to private landowners, businesses and communities
- o Tree and Shrub Nursery - Growing and selling seedlings for conservation and reforestation plantings on state and private lands in Montana

Trust Lands Management

The Trust Land Management Division provides for the administration and management of trust lands granted to the State of Montana by the Enabling Act of 1889. These lands currently total 5.2 million surface acres and 6.2 million mineral acres. Additionally, the division is responsible for the administration of approximately 6,000 miles (40,000+ acres) of beds of navigable waterways. The Trust Land Management Division is divided into four primary programs: forest management, agriculture and grazing management, special use management, and minerals management.

Program Narrative

Forestry Division Major Program Highlights	
- o Comprised of the Forestry and Trust Lands Management Divisions - o Executive is proposing to eliminate 4.15 FTE along with a portion of the State/County Cooperative Fire Protection Program to meet targeted reductions. - o Executive is seeking authority for an inmate fire crew - o No rate increase is being sought for the air operations proprietary program	
Major LFD Issues	
- o A statutory change would allow the use of state special funding if general fund is reduced - o Federal fire reimbursements must be deposited to a federal special revenue fund	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Forestry						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 5,906,892	33.0%	\$ 6,491,382	32.7%	\$ 6,512,010	32.6%
02031 Forest Resources - Nursery	363,409	2.0%	387,522	2.0%	389,119	2.0%
02039 Forestry-Fire Protection Taxes	2,200,091	12.3%	2,497,036	12.6%	2,504,615	12.6%
02073 Forestry - Slash Disposal	96,944	0.5%	108,288	0.5%	108,297	0.5%
02241 Dsl Recreational Use Acocunt	47,552	0.3%	53,129	0.3%	53,009	0.3%
02280 Forest Resources-Timber Sales	2,021,135	11.3%	2,883,196	14.5%	2,883,165	14.5%
02449 Forest Resources-Forest Improv	1,788,198	10.0%	1,724,340	8.7%	1,730,917	8.7%
02450 State Lands Res Dev	534,109	3.0%	594,109	3.0%	594,109	3.0%
02681 Historic Right-Of-Way Acct	-	-	5,000	0.0%	5,000	0.0%
02938 Trust Fund Revenues	3,811,854	21.3%	3,666,150	18.5%	3,702,444	18.6%
03068 Forest Resources-Fire	714,917	4.0%	909,105	4.6%	910,209	4.6%
03069 Forest Resources - Pfa	422,088	2.4%	549,936	2.8%	552,419	2.8%
Grand Total	\$ 17,907,189	100.0%	\$ 19,869,193	100.0%	\$ 19,945,313	100.0%

The Forestry Division contains six programs funded with general fund, state special revenue, and federal funds. General fund, as a part of the funding for the Air Operations Bureau, is transferred to and spent from the bureau's proprietary fund account for fixed costs. Although the legislature no longer appropriates the proprietary funds, it does set the hourly rates charged for use of department aircraft. Revenue from this charge is also deposited in the proprietary account.

State special revenue generated from the sale of nursery stock and forest improvement fees is used to fund the nursery program. The Land Board approves the variable forest improvement fee when timber sales are approved based on the state's expected costs of slash disposal, road access and maintenance, and reforestation. Landowner fire protection taxes are paid by private forest landowners for wildfire protection. The department is required by statute to collect up to one-

third of the state's fire protection appropriation from private landowners (Section 76-13-207, MCA). The other two-thirds is funded with general fund and federal funds. The department is required to set the tax so that collections equal the amount appropriated by the legislature. Other state special revenues include money from the sale of nursery stock and slash removal assessments on private landowners who cut timber. Fees of \$25 for each slash hazard reduction agreement and \$0.60 per thousand board feet sold, plus forfeited fire hazard reduction bonds, are collected for use by the department.

Federal funds finance a portion of the fire protection, other services, and service forestry programs. Historically, funds reimbursed from federal agencies to the state for the state's wildfire costs are appropriated at \$350,000 federal funds each year from the general fund. A legal opinion issued by Greg Petesch, Code Commissioner of the State of Montana, indicated that practice was incorrect.

According to the opinion, because the reimbursable funds come from the federal government, the deposit should be made to a federal special revenue fund. Although spending for fire costs will likely take place from the general fund, the reimbursement will be required to go to a federal special revenue fund.

Trust Lands management

The Trust Lands Division is primarily funded with trust fund revenue, timber sales, and forest resources fees. The remaining funding is made up of recreational use and state lands resource development. General fund is used primarily to fund salaries for support staff.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					2,221,685					2,238,874
Vacancy Savings					(519,282)					(519,967)
Inflation/Deflation					33,871					64,612
Fixed Costs					35,634					54,753
Total Statewide Present Law Adjustments					\$1,771,908					\$1,838,272
DP 7 - TLMD Operating Adjustment										
	0.00	0	9,312	0	9,312	0.00	0	14,811	0	14,811
DP 11 - Fire Seasonal Pay Exception										
	0.00	0	66,000	134,000	200,000	0.00	0	66,000	134,000	200,000
DP 21 - Federal Fire Reimbursement										
	0.00	0	0	112,964	112,964	0.00	0	0	112,854	112,854
DP 27 - TLMD Leased Vehicles										
	0.00	0	5,005	0	5,005	0.00	0	5,432	0	5,432
DP 7004 - Forestry Operating and Special Session Adjustment										
	0.00	10,326	(8,739)	0	1,587	0.00	12,294	(7,755)	0	4,539
Total Other Present Law Adjustments										
	0.00	\$10,326	\$71,578	\$246,964	\$328,868	0.00	\$12,294	\$78,488	\$246,854	\$337,636
Grand Total All Present Law Adjustments					\$2,100,776					\$2,175,908

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7 - TLMD Operating Adjustment - The Executive Budget includes a request for a rent increase in the Helena headquarters based on a contractual rent agreement that runs through June 2005. Since this building is privately owned, rent is not reflected in the Department of Administration fixed cost schedule for rent. Other adjustments in this decision package reflect corrections in expenditures changes among reporting levels.

DP 11 - Fire Seasonal Pay Exception - The Executive Budget includes a request for authority to make the temporary pay exception of 20 percent a permanent increase for the Department of Natural Resources and Conservation (DNRC) firefighters. If approved, this proposal would grant a permanent pay increase of 20 percent for seasonal firefighters to make a pay matrix similar to that of surrounding states (Idaho Department of Lands and Oregon Department of Forestry) with similar programs. The Office of Program and Budget Planning (OBPP) originally approved this pay plan exception for the 2003 biennium as a one-time-only (OTO) budget adjustment. If approved, this request would permanently adopt this pay increase.

DP 21 - Federal Fire Reimbursement - The Executive Budget includes a request for authority to expend federal dollars received in support of federal fire suppression activities. These funds are referred to as the federal fire reimbursement and are received from federal agencies and other states for the use of Department of Natural Resources & Conservation (DNRC) personnel and equipment. DNRC provides assistance to these other entities in managing emergency incidents, such as fire suppression activities. Only those funds received as reimbursement of personnel expenses (up to \$100,000) credited against the operational budget of the fire program or those funds received as payment under equipment use agreements (up to \$250,000) are considered federal fire reimbursement funds. The amount requested represents the authority needed to restore the full \$350,000 for the 2005 biennium.

**LFD
COMMENT**

These reimbursements have historically been deposited to the general fund. However, a recent legislative branch legal opinion indicates that federal reimbursements should be deposited to a federal special revenue fund.

DP 27 - TLMD Leased Vehicles - The Executive Budget includes a request for authority to lease vehicles from the Montana Department of Transportation instead of purchasing new vehicles. This request is for one leased vehicle for the Central Land Office that was authorized by the 2001 legislature, but not received until fiscal 2003. Therefore, the expenditure is not reflected in the base.

DP 7004 - Forestry Operating and Special Session Adjustment - The Executive Budget includes a request for authority to increase operations costs and targeted reductions. If approved, funding would be provided for increases in rent, utilities, communications, janitorial services, fire training through the Northern Rockies Training Center, and the relocation of an interagency dispatch center.

In addition, the Bureau of Indian Affairs, Flathead Agency is raising the fee for providing fire protection on 147,609 acres of state and private lands within the reservation by \$0.04 per acre. The total increase per year is \$5,905 and will be ongoing.

The Forestry Division also proposes to eliminate a portion of the State/County Cooperative Fire Protection Program. The counties affected would be: Missoula, Mineral, Granite, Powell, Sanders, Lincoln, Lake, Ravalli, Flathead, Deer Lodge, and Silver Bow. This will result in a general fund savings of 159,037. However, 76-13-207, MCA, requires that no greater than one-third of the fire appropriation comes from landowner assessments. Thus, the division would also be required to reduce state special revenue funding.

**LFD
ISSUE**

The legislature may wish to consider changing 76-13-207, MCA, to change the two-thirds, one-third split between general fund and state special revenue. This change would enable the department to utilize state special revenue funding in spite of general fund reductions.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General	State Special	Federal Special	Total Funds	General	State Special	Federal Special	Total Funds	
DP 14 - Forestry Restoration of Seasonal FTE										
35	1.55	21,731	25,570	0	47,301	1.55	21,704	25,535	0	47,239
DP 26 - Inmate Fire Crew										
35	0.00	23,182	11,418	0	34,600	0.00	23,852	11,748	0	35,600
DP 7001 - Fund switch for forest practices programs										
35	0.00	(86,575)	0	86,575	0	0.00	(86,575)	0	86,575	0
DP 7020 - Reductions to meet target										
35	(4.15)	(174,963)	(45,710)	0	(220,673)	(4.15)	(174,930)	(45,693)	0	(220,623)
Total	(2.60)	(\$216,625)	(\$8,722)	\$86,575	(\$138,772)	(2.60)	(\$215,949)	(\$8,410)	\$86,575	(\$137,784)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 14 - Forestry Restoration of Seasonal FTE - The Executive Budget includes a request to restore 1.55 FTE eliminated by the legislature.

LFD ISSUE

The 2001 legislature identified FTE that were vacant for over 7 months and that are not seasonal, already filled, or newly classified. The executive has since identified these positions as seasonal in nature. Accordingly, the legislature may wish to consider these positions as candidates for re-instatement as permanent, seasonal positions.

DP 26 - Inmate Fire Crew - The Executive Budget includes a request for authority to establish an inmate firefighting crew at the Montana State Prison for use by the department. The executive would use the crew to support wildland fire suppression efforts with a minimal amount of increased costs. If this proposal is approved, the department would request 0.35 modified FTE each year to administer this program.

LFD COMMENT

The 1999 legislature approved funding for an inmate firefighter program out of the Great Falls and Missoula Regional Prisons. The Department of Corrections was unable to complete a work release policy for inmates during the 1999 biennium. DNRC consequently did not spend approved funds and the 2001 legislature eliminated the program.

DP 7001 - Fund switch for forest practices programs - The Executive Budget includes a request for a funding switch. Service foresters working in forest practices programs and slash hazard reduction programs are primarily funded with general fund. However, the division has recently received additional federal funds and it is likely that these federal funds can be used to fund personal services. If approved, funding would be switched from general fund to federal funds in the amount of \$86,575.

DP 7020 - Reductions to meet target - The Executive Budget includes a request to eliminate a portion of the State/County Cooperative Fire Protection Program and 4.15 FTE. The counties affected would be: Missoula, Mineral, Granite, Powell, Sanders, Lincoln, Lake, Ravalli, Flathead, Deer Lodge, and Silver Bow. This will result in a general fund savings of \$159,037. However, 76-13-207, MCA, requires that no greater than one-third of the fire appropriation comes from landowner assessments. Thus, the division would also be required to reduce state special revenue funding. If approved, this request would include a \$140,000 reduction to reflect the Forestry Division's conversation to pay plan 20.

**LFD
ISSUE**

The legislature may wish to consider changing 76-13-207, MCA, to change the two-thirds, one-third split between general fund and state special revenue. This change would enable the department to utilize state special revenue funding in spite of general fund reductions.

**LFD
ISSUE**

Please see agency wide issues related to the move to pay plan 20.

Proprietary Rates

Program Description

The Air Operations Program in the Forestry Division is funded from the air operations proprietary account for those costs that can be supported by the aircraft rates charged to agencies that use the aircraft and general fund for fixed costs. The program operates three medium helicopters, two light helicopters, and three single engine fixed-wing airplanes. Aircraft are primarily used for fire detection, support and suppression of wildfires, and reclamation work in the Department of Environmental Quality. Fixed costs are paid by the general fund and fire protection tax revenue since they must be paid regardless of number of hours flown. These costs include hangar rent, insurance, and personnel costs. The general fund and fire protection taxes are appropriated by the legislature and transferred to and spent from the proprietary account. Variable costs that are dependent on the hours flown, such as fuel and maintenance, are recovered through an hourly rate charged to all users of the aircraft. Users of the aircraft include DNRC, other state agencies, federal agencies, and the state's wildfire suppression efforts. This revenue is also deposited to the proprietary account.

Revenues and Expenses

Base year funding

Customer payments are made up primarily of DNRC and the U.S. Forest service.

Expenses incurred by program

The cost drivers for the aircraft rates are the actual expenses needed to maintain the aircraft in an air-worthy condition and remain mission ready for the primary purpose of initial attacking of wild fires on state and federal ground. This includes all costs associated in the operation of and maintaining of that aircraft. There are some factors that contribute to the uncertainty in forecasting future expenses. This includes unforeseen events such as FAA and manufacturer directives, aircraft incidents resulting in unplanned maintenance, and fluctuations in fuel and parts.

Rate Explanation

The reimbursement rates for the operation of the department aircraft are based on the time-life of 5000 hours of aircraft usage determined to maintain the aircraft in its original condition. At the end of 5000 hours, all parts should have been replaced and a new maintenance and operation cycle started. The customer base is very specific and is made up of DNRC land managers and the U.S. Forest Service. The aviation section provides aircraft for fire operations. The aviation section uses this reimbursement rate strictly to maintain the aircraft in flyable condition. Due to the high price of aircraft parts, the department maintains a high fund balance.

In addition, the FAA and the manufacturer can issue service and technical bulletins that mandate compliance to continue operation of that aircraft. Customers are billed at the fixed rate based on the amount of hours and tenths of hours flown. All costs are direct and fixed with no indirect costs associated with these rates.

Rates

Bell UH-1H	\$875.00 per hour
Bell Jet Ranger	\$375.00 per hour
Cessna 180 series	\$ 95.00 per hour

The executive is not requesting a rate increase for the 2005 biennium.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06538	Aircraft Operation	57060	Dept. of Natural Resources & Conservation	Forestry

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Accommodation Tax	162.34			-	-	-
Cessna	38932.35	66654	20368	22,105	52,725	52,725
Jet Ranger 206	72760.5	143373.34	68486	32,310	127,800	127,800
UH-1 Huey	290870	523685	342475	244,929	315,000	315,000
Net Fee Revenue	396,008	758,140	445,275	299,344	495,525	495,525
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	162	-	-	-	-	-
Total Operating Revenues	396,170	758,140	445,275	299,344	495,525	495,525
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	396,170	758,140	445,275	299,344	495,525	495,525
Operating Expenses:						
Personal Services	259,680	266,723	332,917	353,151	304,290	306,169
Other Operating Expenses	662,833	755,695	534,095	494,987	566,003	568,573
Miscellaneous, operating	10,355	6,707	4,752	10,226	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	932,868	1,029,125	871,764	858,364	870,293	874,742
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	932,868	1,029,125	871,764	858,364	870,293	874,742
Operating Income (Loss)	(536,698)	(270,985)	(426,489)	(559,020)	(374,768)	(379,217)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(536,698)	(270,985)	(426,489)	(559,020)	(374,768)	(379,217)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	355,419	355,419	389,169	389,169	398,339	398,339
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	322,076	140,797	225,231	187,911	18,060	41,631
Net Income (Loss)	(181,279)	84,434	(37,320)	(169,851)	23,571	19,122
Retained Earnings/Fund Balances - June 30	140,797	225,231	187,911	18,060	41,631	60,753
60 days of expenses (Total Operating Expenses divided by 6)	155,478	171,521	145,294	143,061	145,049	145,790

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	109.05	0.00	2.50	111.55	0.00	2.50	111.55	111.55
Personal Services	3,543,375	967,391	110,569	4,621,335	968,829	110,304	4,622,508	9,243,843
Operating Expenses	2,236,399	341,805	200,032	2,778,236	242,509	200,032	2,678,940	5,457,176
Equipment	148,511	91,800	0	240,311	66,800	0	215,311	455,622
Grants	3,066,490	318,896	2,007,278	5,392,664	318,896	0	3,385,386	8,778,050
Transfers	80,000	(80,000)	0	0	(80,000)	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$9,074,775	\$1,639,892	\$2,317,879	\$13,032,546	\$1,517,034	\$310,336	\$10,902,145	\$23,934,691
General Fund	730,339	(8,686)	(29,015)	692,638	(42,857)	(29,015)	658,467	1,351,105
State/Other Special	7,156,170	1,224,456	88,529	8,469,155	1,130,053	88,388	8,374,611	16,843,766
Federal Special	946,465	345,709	2,258,365	3,550,539	350,118	250,963	1,547,546	5,098,085
Proprietary	241,801	78,413	0	320,214	79,720	0	321,521	641,735
Total Funds	\$9,074,775	\$1,639,892	\$2,317,879	\$13,032,546	\$1,517,034	\$310,336	\$10,902,145	\$23,934,691

Agency Description

The Department of Agriculture, required by Article XII, Section 1, of the Montana Constitution, was established to encourage and promote the interests of agricultural and allied industries in Montana. To this end, the department:

- o Strengthens and diversifies the Montana agriculture industry through private-public partnerships
- o Collects and publishes agricultural production and marketing statistics relating to agricultural products
- o Assists, encourages, and promotes the organization of farmers institutes, agricultural societies, fairs, and other exhibition of agriculture
- o Adopts standards for grade and other classifications of farm products
- o Coordinates the planning and maintenance of economical and efficient marketing distribution systems
- o Gathers and distributes marketing information concerning supply, demand, price, and movement of farm products
- o Regulates production and marketing of food and fiber products
- o Registers pesticides and fertilizers and enforces laws pertaining to them

Executive Recommended Legislation

The executive proposes legislation that would reduce the allocation of coal severance tax collections into the coal severance tax shared state special revenue account from 7.75 to 4.18, which is 50 percent of the original 8.36 allocation. The Growth Through Agriculture Program receives a share of its funding from this account. For more information on the coal severance tax shared account, see the narrative for the Community Development Division within the Department of Commerce. For more information on the Growth Through Agriculture Program, see the narrative for the Agricultural Development Division within this agency.

The executive proposes legislation to change the method for assessing and collecting apiary registration and inspection fees, to allow the Apiary Program to become self-supporting.

The executive proposes legislation that would reduce the statutory general fund appropriation to the Growth Through Agriculture Program from \$1.25 million to \$625,000 annually. For more information, see the narrative for the Agriculture Development Division within this agency.

Agency Discussion

Department of Agriculture Major Budget Highlights	
○ The executive proposes to reduce general fund support for the Apiary Program within the Agricultural Sciences Division, and make the program self-supporting with state special revenue funding ○ The executive proposes a 50 percent reduction to the Growth Through Agriculture appropriation from the coal severance tax shared state special revenue account ○ The executive proposes a 50 percent reduction to the Growth Through Agriculture statutory appropriation. (Although this reduction is not contained in HB 2, it is pertinent to discuss in relation to the decision on the appropriation from the Coal Severance Tax shared account)	
Major LFD Issues	
○ Funding allocation of Centralized Management Division is not applied equally across fund types ○ Growth Through Agriculture ○ Provides assistance in two areas: staff assistance and investment funding ○ Most investment funding is awarded in the form of grants, which do not result in a direct payback ○ Tangible economic impacts have not been compiled for the staff assistance services and have been estimated for investment funding ○ Opportunities, although limited, do exist for similar assistance and funding to be provided through other programs	

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget						
<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Proprietary</u>	<u>Grand Total</u>	<u>Total %</u>
Agricultural Sciences Div.	\$ 263,819	\$ 9,903,380	\$ 4,532,085	\$ -	\$ 14,699,284	61.4%
Agricultural Development	674,843	5,805,125	440,000	528,943	7,448,911	31.1%
Central Management Division	412,443	1,135,261	126,000	112,792	1,786,496	7.5%
Grand Total	\$ 1,351,105	\$ 16,843,766	\$ 5,098,085	\$ 641,735	\$ 23,934,691	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	109.05	2.50	111.55	109.05	2.50	111.55	109.05	111.55
Personal Services	4,510,766	110,569	4,621,335	4,512,204	110,304	4,622,508	7,959,794	9,243,843
Operating Expenses	2,578,204	200,032	2,778,236	2,478,908	200,032	2,678,940	4,658,115	5,457,176
Equipment	240,311	0	240,311	215,311	0	215,311	402,327	455,622
Grants	3,385,386	2,007,278	5,392,664	3,385,386	0	3,385,386	7,270,197	8,778,050
Transfers	0	0	0	0	0	0	160,000	0
Debt Service	0	0	0	0	0	0	1,308	0
Total Costs	\$10,714,667	\$2,317,879	\$13,032,546	\$10,591,809	\$310,336	\$10,902,145	\$20,451,741	\$23,934,691
General Fund	721,653	(29,015)	692,638	687,482	(29,015)	658,467	1,486,641	1,351,105
State/Other Special	8,380,626	88,529	8,469,155	8,286,223	88,388	8,374,611	15,307,283	16,843,766
Federal Special	1,292,174	2,258,365	3,550,539	1,296,583	250,963	1,547,546	3,081,158	5,098,085
Proprietary	320,214	0	320,214	321,521	0	321,521	576,659	641,735
Total Funds	\$10,714,667	\$2,317,879	\$13,032,546	\$10,591,809	\$310,336	\$10,902,145	\$20,451,741	\$23,934,691

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5 - Federal Discretionary Funding										
30	0.00	0	0	178,500	178,500	0.00	0	0	178,500	178,500
DP 7 - Organic Program Fund Switch to State Special										
30	1.50	0	59,514	0	59,514	1.50	0	59,373	0	59,373
DP 10 - USDA Cooperative Agricultural Pest Survey										
30	1.00	0	0	72,587	72,587	1.00	0	0	72,463	72,463
DP 13 - USDA Forest Service Weeds and Fire Grants										
30	0.00	0	0	2,007,278	2,007,278	0.00	0	0	0	0
DP 8000 - Apiary (Honey Bee) Fund Switch										
30	0.00	(29,015)	29,015	0	0	0.00	(29,015)	29,015	0	0
Total	2.50	(\$29,015)	\$88,529	\$2,258,365	\$2,317,879	2.50	(\$29,015)	\$88,388	\$250,963	\$310,336

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	13.00	0.00	0.00	13.00	0.00	0.00	13.00	13.00
Personal Services	587,875	74,477	0	662,352	74,014	0	661,889	1,324,241
Operating Expenses	159,662	54,399	0	214,061	45,656	0	205,318	419,379
Equipment	8,938	25,000	0	33,938	0	0	8,938	42,876
Total Costs	\$756,475	\$153,876	\$0	\$910,351	\$119,670	\$0	\$876,145	\$1,786,496
General Fund	222,429	880	0	223,309	(33,295)	0	189,134	412,443
State/Other Special	417,166	150,480	0	567,646	150,449	0	567,615	1,135,261
Federal Special	66,894	(3,894)	0	63,000	(3,894)	0	63,000	126,000
Proprietary	49,986	6,410	0	56,396	6,410	0	56,396	112,792
Total Funds	\$756,475	\$153,876	\$0	\$910,351	\$119,670	\$0	\$876,145	\$1,786,496

Program Description

The Central Management Division performs technical, fiscal, and administrative support functions for the department's internal operations and related programs. Responsibilities include accounting, budgeting, payroll, personnel, purchasing, property control, data processing, systems analysis and computer programming, equal opportunity administration, and legal support to all programs within the department. Included in this division is the director's office, which provides overall policy development for the department.

Program Narrative

Central Management Division Major Budget Highlights	
No significant changes	
Major LFD Issues	
Funding allocation of Centralized Management Division is not applied equally across fund types	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Central Management Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 222,429	29.4%	\$ 223,309	24.5%	\$ 189,134	21.6%
02040 Wheat & Barley Research & Mktg	60,180	8.0%	60,564	6.7%	60,567	6.9%
02068 Noxious Weed Admin Account	67,374	8.9%	81,997	9.0%	81,992	9.4%
02071 Anhydrous Ammonia Account	500	0.1%	1,247	0.1%	1,247	0.1%
02192 Pest Ag Chemical Ground Water	64,802	8.6%	90,635	10.0%	90,628	10.3%
02193 Pesticide Management Account	61,078	8.1%	128,264	14.1%	128,257	14.6%
02198 Fert. Ag Chemical Ground Water	2,850	0.4%	3,078	0.3%	3,078	0.4%
02264 Organic Certification	-	-	11,876	1.3%	11,870	1.4%
02265 Fsi Produce	-	-	21,241	2.3%	21,240	2.4%
02266 Comm Dealer/Pub Ware Oper Acct	16,478	2.2%	9,397	1.0%	9,396	1.1%
02267 Nursery Account	11,106	1.5%	15,007	1.6%	15,006	1.7%
02268 Produce Account	60,900	8.1%	31,732	3.5%	31,728	3.6%
02269 Seed Account	5,263	0.7%	4,885	0.5%	4,885	0.6%
02341 State Noxious Weed Forage	-	-	3,809	0.4%	3,809	0.4%
02452 Commercial Fertilizer	32,525	4.3%	17,912	2.0%	17,911	2.0%
02453 Grain Services	-	-	57,566	6.3%	57,566	6.6%
02454 Commercial Feed	34,110	4.5%	28,436	3.1%	28,435	3.2%
03120 Centralized Ser. - Grant Fund	66,894	8.8%	63,000	6.9%	63,000	7.2%
06052 Hail Insurance	49,986	6.6%	56,396	6.2%	56,396	6.4%
Grand Total	\$ 756,475	100.0%	\$ 910,351	100.0%	\$ 876,145	100.0%

This program is funded with a mixture of general fund, state and federal special revenue, and proprietary funds. The CMD is funded by assessments on the programs it supports. State and federal special revenue and proprietary-funded programs contained in HB 2 are assessed 20 percent of personal services and 2.5 percent of grants in order to compensate CMD for its services. General fund is used to make up the difference between this amount and the requested budget for CMD. This method of assessment to the programs is consistent with how the CMD has assessed programs in the past.

LFD ISSUE

Although general fund support in relation to other funding has decreased over previous biennia, this method of assessing programs results in an imbalance in the amount of general fund allocated to the CMD. As an example, an assessment of 20 percent of personal services and 2.5 percent of grants among all HB 2 general fund expenditures included in the base for the Agricultural Sciences and Agricultural Development divisions would establish a general fund level of approximately \$55,000, compared to the executive-recommended levels of \$223,000 in fiscal 2004 and \$189,134 in fiscal 2005. Applying a consistent assessment rate across all fund types would likely necessitate calculation of a new assessment rate.

Options:

- Accept the executive proposal for funding within the Central Management Division
- Direct the department to develop a recommendation for consistent assessment across all fund types. Based on legislative concurrence with the recommendation, the CMD appropriation can be adjusted accordingly

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				102,075						101,593
Vacancy Savings				(27,598)						(27,579)
Inflation/Deflation				1,095						1,121
Fixed Costs				2,336						(30,194)
Total Statewide Present Law Adjustments				\$77,908						\$44,941
DP 1 - Request for Operations and Equipment										
0.00	0	60,168	0	60,168		0.00	0	73,037	0	74,729 *
DP 2 - Microsoft Office Licensing										
0.00	0	14,108	0	15,800 *		0.00	0	0	0	0
Total Other Present Law Adjustments										
0.00	\$0	\$74,276	\$0	\$75,968 *		0.00	\$0	\$73,037	\$0	\$74,729 *
Grand Total All Present Law Adjustments				\$153,876 *						\$119,670 *

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Request for Operations and Equipment - The executive requests additional state special revenue and proprietary fund authority for the following:

- o Operating costs at State Grain Lab based on historical and projected usage
- o An ethanol-fueled vehicle for the department director (\$25,000 in fiscal 2004)
- o Consulting and professional services for human resources projects (\$29,340 in fiscal 2005)

LFD COMMENT

The State Grain lab is primarily self-supporting, operating on revenue from fees charged for testing samples provided to them by producers. Usage of the lab varies from year to year depending on factors such as weather and quality of seasonal crops. Due to the severe drought during the past several years, including the base year, agriculture producers and the grain trade provided fewer grain samples to the grain lab for analysis, reducing revenues, and therefore, expenditures in the base year. This request brings authority back up to a projected level of expenditures.

DP 2 - Microsoft Office Licensing - The executive requests additional state special and proprietary fund authority to purchase software licenses. Under the old licensing structure, no costs for software licensing were incurred in the base year. This request would pay for approximately 50 licenses.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	56.17	0.00	2.50	58.67	0.00	2.50	58.67	58.67
Personal Services	2,020,206	244,474	110,569	2,375,249	245,900	110,304	2,376,410	4,751,659
Operating Expenses	919,093	120,552	200,032	1,239,677	130,881	200,032	1,250,006	2,489,683
Equipment	139,573	0	0	139,573	0	0	139,573	279,146
Grants	2,285,759	300,000	2,007,278	4,593,037	300,000	0	2,585,759	7,178,796
Total Costs	\$5,364,631	\$665,026	\$2,317,879	\$8,347,536	\$676,781	\$310,336	\$6,351,748	\$14,699,284
General Fund	181,198	(20,274)	(29,015)	131,909	(20,273)	(29,015)	131,910	263,819
State/Other Special	4,348,362	511,197	88,529	4,948,088	518,542	88,388	4,955,292	9,903,380
Federal Special	835,071	174,103	2,258,365	3,267,539	178,512	250,963	1,264,546	4,532,085
Total Funds	\$5,364,631	\$665,026	\$2,317,879	\$8,347,536	\$676,781	\$310,336	\$6,351,748	\$14,699,284

Program Description

The Agricultural Sciences Division (ASD) administers, manages, coordinates, and evaluates the major activities of pesticide and pest management, analytical laboratory services, noxious weed management, agricultural chemical groundwater management, and vertebrate pest management. This program administers the Montana Pesticides Act, Agricultural Chemical Groundwater Protection Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Noxious Weed Trust Fund Act, elements of the Weed Assistance Act, and the department's Chemical Analytical Laboratory. Duties also include administering agricultural programs related to the production, manufacturing, and marketing of commodities exported from or distributed in the state.

Program Narrative

Agricultural Sciences Division Major Budget Highlights	
o	General fund to state special revenue switch within the Apiary Program of approximately \$29,000 each year to implement proposed statute change to method of assessing and collecting apiary registration and inspection fees

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Agricultural Sciences Div.						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 181,198	3.4%	\$ 131,909	1.6%	\$ 131,910	2.1%
02037 Mint Committee	22,178	0.4%	30,350	0.4%	30,350	0.5%
02068 Noxious Weed Admin Account	2,013,076	37.5%	2,295,442	27.5%	2,295,444	36.1%
02071 Anhydrous Ammonia Account	8,654	0.2%	17,877	0.2%	17,877	0.3%
02072 Ermd Misc. S.S.	9,843	0.2%	12,543	0.2%	12,543	0.2%
02192 Pest Ag Chemical Ground Water	462,711	8.6%	524,795	6.3%	527,296	8.3%
02193 Pesticide Management Account	798,839	14.9%	942,694	11.3%	943,558	14.9%
02198 Fert. Ag Chemical Ground Water	17,745	0.3%	17,745	0.2%	17,745	0.3%
02264 Organic Certification	-	-	101,448	1.2%	101,319	1.6%
02265 Fsi Produce	-	-	185,265	2.2%	185,999	2.9%
02266 Comm Dealer/Pub Ware Oper Acct	96,172	1.8%	89,132	1.1%	89,638	1.4%
02267 Nursery Account	50,385	0.9%	78,253	0.9%	78,253	1.2%
02268 Produce Account	305,005	5.7%	134,282	1.6%	134,562	2.1%
02269 Seed Account	35,391	0.7%	59,830	0.7%	59,829	0.9%
02341 State Noxious Weed Forage	8,787	0.2%	37,905	0.5%	37,905	0.6%
02452 Commercial Fertilizer	250,792	4.7%	177,958	2.1%	180,422	2.8%
02454 Commercial Feed	268,784	5.0%	213,554	2.6%	213,537	3.4%
02693 Air Transportation Special Revenue	-	-	29,015	0.3%	29,015	0.5%
03118 Marketing Service	835,071	15.6%	3,267,539	39.1%	1,264,546	19.9%
Grand Total	\$ 5,364,631	100.0%	\$ 8,347,536	100.0%	\$ 6,351,748	100.0%

The Agricultural Sciences Division receives a portion of its funding from the general fund. In the 2005 biennium Executive Budget, general fund supports the Apiary Program (\$38,000 over the biennium) and the Pesticide Program (\$23,000 over the biennium). Additionally, the department receives general fund (\$203,000 over the biennium) from the Department of Fish, Wildlife, and Parks (FWP) for the Noxious Weed grant program.

The division's primary funding is from state special revenues. The noxious weed administration account receives a transfer from the general fund equal to \$1.50 for every vehicle registered in the state. The weed program is also funded by interest collected from the Noxious Weed Trust. Pesticide registration fees of \$185 per product are allocated at the \$95 level to the groundwater state special revenue account, with the remaining \$90 going to the pesticide management state special revenue account. The pesticide management account also receives revenue from pesticide dealers and commercial, governmental, and farm application fees. Other state special revenues come from commercial feed and fertilizer registration and inspection fees. These fees include mint assessments, fees for anhydrous ammonia and commodity inspection, testing and license fees, and commercial dealer and public-warehouse operator license fees.

Federal funds are from the market services account, which funds bovine spongeiform and encephalitis (BSE/Mad Cow Disease) inspections, as well as portions of the pesticide and ground water programs supported by the Environmental Protection Agency (EPA) and pest detection program supported by the US Department of Agriculture (USDA).

LFD ISSUE

The 2001 legislature designated the general fund allocated to the weed program from FWP as restricted, and inserted language into HB 2 directing the funds to be "granted to governmental entities through an application process, to mitigate the impact of noxious weeds on private and state lands, except Department of Fish, Wildlife, and Parks lands, as a result of the activities of the Department of Fish, Wildlife, and Parks."

If the legislature wishes to maintain the intent of the original appropriation, it should designate \$101,341 of general fund each year as restricted, and insert similar language into HB 2.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				332,041					333,527	
Vacancy Savings				(94,091)					(94,151)	
Inflation/Deflation				4,471					5,295	
Fixed Costs				40,449					47,474	
Total Statewide Present Law Adjustments				\$282,870					\$292,145	
DP 2 - Mint Committee	0.00	0	8,412	0	8,412	0.00	0	8,392	0	8,392
DP 4 - Noxious Weed Grants	0.00	0	300,000	0	300,000	0.00	0	300,000	0	300,000
DP 6 - Correct Base Budget in RL31	0.00	0	0	0	0	0.00	0	0	0	0
DP 9 - Contracts for Inspections of Organic Applicants	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000
DP 14 - Weed Seed Free Forage supply purchases	0.00	0	1,616	0	1,616	0.00	0	1,616	0	1,616
DP 15 - Advisory Councils Lodging and Per Diem	0.00	0	5,149	0	5,149	0.00	0	5,149	0	5,149
DP 17 - Pesticide Applicator Training	0.00	0	2,700	0	2,700	0.00	0	2,700	0	2,700
DP 18 - Waste Pesticide Disposal Program Disposal Cost	0.00	0	21,165	0	21,165	0.00	0	21,165	0	21,165
DP 19 - Field Office Rent Contracts	0.00	0	800	0	800	0.00	0	3,300	0	3,300
DP 20 - Federal Contract for Feed Inspections (BSE)	0.00	0	0	20,000	20,000	0.00	0	0	20,000	20,000
DP 21 - Restore Produce Inspector Overtime	0.00	0	2,314	0	2,314	0.00	0	2,314	0	2,314
Total Other Present Law Adjustments				\$382,156					\$384,636	
				\$0					\$0	
Grand Total All Present Law Adjustments				\$665,026					\$676,781	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2 - Mint Committee - The executive requests additional state special revenue for administrative costs associated with the Mint Committee, including, per diem, travel, program supplies, and contracted services for research on mint production and management of pests and weeds.

DP 4 - Noxious Weed Grants - The executive requests an additional \$300,000 each year in state special revenue authority from the noxious weed administration account to accommodate an anticipated increase in grants due to increased revenues into the account.

LFD COMMENT

The Noxious Weed Trust Fund grant program was established by the 1985 legislature. The Department of Agriculture manages the grant program and states that it "is designed to assist counties, local communities, researchers, and educators in their efforts to solve a variety of weed problems in Montana." The department reviews each grant application to ensure, among other things, that the application complements and enhances the Montana Weed Management Plan as developed by the Weed Summit Steering Committee and the Weed Management Task Force. In the base year, the noxious weed administration account received \$1.6 million in revenues from the \$1.50 vehicle registration fee and \$1.2 million in interest and transfers from the Noxious Weed Trust. The program provided approximately \$2.3 million in grants during the base year.

DP 6 - Correct Base Budget in RL31 - The executive proposes an adjustment to correct a base-year account error. The net result of this adjustment is a switch within the state special revenue fund type from the produce account to the federal state inspections produce account of approximately \$42,000 each year.

DP 9 - Contracts for Inspections of Organic Applicants - The executive requests an additional \$20,000 in each year of the biennium from the organic certification state special revenue fund. This request will accommodate additional inspections of producer and handler operations to grant organic certification.

DP 14 - Weed Seed Free Forage supply purchases - The executive requests an additional \$1,616 each year in state special revenue authority to purchase color-coded bailing twine to mark certified noxious weed seed free forage. Funding is from the state noxious weed forage fund.

DP 15 - Advisory Councils Lodging and Per Diem - The executive requests an additional \$5,149 each year in state special revenue authority to carry forward base year costs and provide additional travel and per diem funding for members serving on the Noxious Weed Trust Fund, Organic Certification, and Noxious Weed Seed Free Forage advisory councils.

DP 17 - Pesticide Applicator Training - The executive requests an additional \$2,700 each year in state special revenue authority for operational costs to provide training for recertification of pesticide applicators and dealers including speaker fees and increases in training room rental, travel costs, and supplies and materials.

DP 18 - Waste Pesticide Disposal Program Disposal Cost - Provide appropriation authority for the waste pesticide disposal program above base year funding to historical levels. In addition, the disposal program will be paying its fair share of personal services and operations costs not charged to the program in previous disposal collections.

DP 19 - Field Office Rent Contracts - The executive requests additional state special revenue authority to pay increased rent for field offices. Rent will increase from the base year by \$800 in fiscal 2004 and \$3,300 in fiscal 2005.

DP 20 - Federal Contract for Feed Inspections (BSE) - Funding is necessary to reestablish a budget and allow for new funding from the FDA to inspect and sample commercial feeds. The inspections will assure compliance with laws that prevent the spread of bovine spongiform and encephalitis (BSE/Mad Cow Disease), a devastating disease of cattle and humans.

DP 21 - Restore Produce Inspector Overtime - The executive requests \$2,314 each year in state special revenue to restore the zero-based overtime for grade inspections of potatoes and other commodities, which occur upon request by growers and are often needed on the weekends and after regular hours.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	
DP 5 - Federal Discretionary Funding	30	0.00	0	0	178,500	178,500	0.00	0	0	178,500
DP 7 - Organic Program Fund Switch to State Special	30	1.50	0	59,514	0	59,514	1.50	0	59,373	0
DP 10 - USDA Cooperative Agricultural Pest Survey	30	1.00	0	0	72,587	72,587	1.00	0	0	72,463
DP 13 - USDA Forest Service Weeds and Fire Grants	30	0.00	0	0	2,007,278	2,007,278	0.00	0	0	0
DP 8000 - Apiary (Honey Bee) Fund Switch	30	0.00	(29,015)	29,015	0	0	0.00	(29,015)	29,015	0
Total	2.50	(\$29,015)	\$88,529	\$2,258,365	\$2,317,879	2.50	(\$29,015)	\$88,388	\$250,963	\$310,336

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 5 - Federal Discretionary Funding - The executive requests an additional \$178,500 each year in federal special revenue in anticipation of EPA discretionary funds becoming available for special pesticide programs involving training, enforcement, worker protection, endangered species, and ground water protection.

DP 7 - Organic Program Fund Switch to State Special - The executive requests approximately \$59,000 each year in state special revenue authority to switch funding for the Organic Certification Program from general fund to organic certification state special revenue funding. This funding pays for program costs as well as 1.00 FTE to manage the program.

LFD COMMENT

The 2001 legislature provide approximately \$42,000 general fund and 0.50 FTE in each year of the 2003 biennium for the Organic Certification Program. The legislature also included language in HB 2 specifying that the program be funded with sources other than general fund in the 2005 biennium, with the intent that the program be self-supporting. At the time, the program was just starting, and organic certification rules had not been finalized or adopted by the US Department of Agriculture (USDA). After USDA adoption of the rules, Montana's Organic Committee approved the program, and the program began certifying producers and handlers in late fiscal 2002. The 1.00 FTE administrator position originally associated with the program was not filled while waiting for the USDA to finalize program rules, and the 2001 legislature eliminated it due to it being vacant for a significant amount of time. This request re-establishes that 1.00 FTE, which is currently established as a modified position.

DP 10 - USDA Cooperative Agricultural Pest Survey - The executive requests approximately \$72,000 in federal special revenue each year to accommodate surveys and management of agricultural pests and to protect homeland security, to be funded by the USDA Animal and Plant Health Inspection Service. The intent of this program is to improve the pest detection system in the United States and to prevent the intentional or accidental introduction of pests that could cause serious harmful impacts to agriculture and other segments of Montana's economy. This request also establishes 1.00 FTE to manage the program and funding.

DP 13 - USDA Forest Service Weeds and Fire Grants - The executive requests approximately \$2.0 million in federal special revenue authority to issue grants to counties and cooperative landowner associations for control of noxious weeds. Funds will be granted to the department by the USDA Forest Service. The executive requests this appropriation be designated as biennial.

DP 8000 - Apiary (Honey Bee) Fund Switch - The executive proposes to implement an apiary fee for the 2005 biennium to replace a portion of the general fund currently used to support the Apiary Program. Net result of this request is a fund

switch decreasing general fund and increasing state special revenue by approximately \$29,000 each year. This proposal is contingent upon the passage of legislation changing the method for assessing and collecting apiary registration and inspection fees.

**LFD
ISSUE**

Subsequent to development of the budget proposal, the department and the beekeeping industry agreed on a level of service (\$53,000 each year) and fee structure that would fully support that level of service. Therefore, the proposed legislation will include a fee structure that would enable the Apiary Program to be completely self-supporting. If the legislature wishes to accommodate this legislation, this decision package should be amended to eliminate all general fund support to the program (\$48,103 in fiscal 2004, \$48,104 in fiscal 2005) and provide state special revenue authority of \$53,336 each year.

Proprietary Rates**Program Description**

The Alfalfa Leaf-cutting Bee Program (fund 06011) is established in Title 80, Chapter 6, Part 11, MCA. The Alfalfa Seed Committee establishes standards for pathogens and parasites, certification of bees, and management of the program in cooperation with the department. Department personnel perform field and laboratory duties for the committee.

Revenues and Expenses

Alfalfa leaf-cutting bee account revenues are received from laboratory analyses for pathogens in larva and the determination of sex ratios. Expenditures include laboratory costs and committee member per diem. There are no FTE funded in this program; however, there are usually overtime payments to the entomologist to pay for the laboratory analyses performed. There is a \$15 registration fee for alfalfa leaf-cutting bee owners that is paid once. There is a \$30 certification fee per sample for certifying samples. There is a \$30 analysis fee per sample and an additional fee of \$20 for sex ratio and percent emergence.

Rate Explanation

Fees are charged for certification and registration of alfalfa leaf-cutter bees in Montana and for laboratory expenses. The fees charged are set by rule. Rates are \$30 for a minor A license and \$15 for a minor B license.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06011	Dept Of Agriculture	62010	Dept. of Agriculture	Agricultural Sciences

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	4,270	3,280	1,830	4,300	4,300	4,300
Investment Earnings	422	456	203	-	-	-
Securities Lending Income	20	3	4	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	2	1	-	-	-	-
Total Operating Revenues	4,714	3,740	2,037	4,300	4,300	4,300
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	4,714	3,740	2,037	4,300	4,300	4,300
Operating Expenses:						
Personal Services	2,998	4,040	3,138	3,211	3,211	3,211
Other Operating Expenses	936	844	704	1,612	1,607	1,607
Miscellaneous, operating	19	14	7	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	3,953	4,898	3,849	4,823	4,818	4,818
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	3,953	4,898	3,849	4,823	4,818	4,818
Operating Income (Loss)	761	(1,158)	(1,812)	(523)	(518)	(518)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	761	(1,158)	(1,812)	(523)	(518)	(518)
Contributed Capital	186,149	186,149	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	(177,409)	(176,648)	8,343	6,531	6,008	5,490
Net Income (Loss)	186,910	184,991	(1,812)	(523)	(518)	(518)
Retained Earnings/Fund Balances - June 30	9,501	8,343	6,531	6,008	5,490	4,972
60 days of expenses (Total Operating Expenses divided by 6)	659	816	642	804	803	803

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	39.88	0.00	0.00	39.88	0.00	0.00	39.88	39.88
Personal Services	935,294	648,440	0	1,583,734	648,915	0	1,584,209	3,167,943
Operating Expenses	1,157,644	166,854	0	1,324,498	65,972	0	1,223,616	2,548,114
Equipment	0	66,800	0	66,800	66,800	0	66,800	133,600
Grants	780,731	18,896	0	799,627	18,896	0	799,627	1,599,254
Transfers	80,000	(80,000)	0	0	(80,000)	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$2,953,669	\$820,990	\$0	\$3,774,659	\$720,583	\$0	\$3,674,252	\$7,448,911
General Fund	326,712	10,708	0	337,420	10,711	0	337,423	674,843
State/Other Special	2,390,642	562,779	0	2,953,421	461,062	0	2,851,704	5,805,125
Federal Special	44,500	175,500	0	220,000	175,500	0	220,000	440,000
Proprietary	191,815	72,003	0	263,818	73,310	0	265,125	528,943
Total Funds	\$2,953,669	\$820,990	\$0	\$3,774,659	\$720,583	\$0	\$3,674,252	\$7,448,911

Program Description

The Agricultural Development Division administers programs to promote Montana agriculture through market development and enhancement. Assistance is given in support of commercializing traditional, as well as innovative, agricultural products and processes. The program provides support to the Alfalfa Seed Committee, the Montana Wheat and Barley Committee, the Montana Agricultural Development Council, and the Board of Hail Insurance. The division is comprised of the Rural Development, Wheat and Barley, Agriculture Marketing and Business Development, and State Grain Laboratory bureaus. The State Grain Laboratory provides grades, protein determinations, malting barley germination, and falling number tests to establish contract settlement prices between buyers and sellers of grain crops in Montana.

Program Narrative

Agricultural Development Division Major Budget Highlights	
○ 50 percent reduction in statutory Growth Through Agriculture appropriation ○ 50 percent reduction in Growth Through Agriculture funding from the coal severance tax shared state special revenue account	
Major LFD Issues	
○ Growth Through Agriculture ○ Provides assistance in two areas: staff assistance and investment funding ○ Most investment funding is awarded in the form of grants, which do not result in a direct payback ○ Tangible economic impacts have not been compiled for the staff assistance services and have been estimated for investment funding ○ Opportunities, although limited, do exist for similar assistance and funding to be provided through other programs	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Agricultural Development						
	Base	% of Base	Budget	% of Budget	Budget	% of Budget
Program Funding	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 326,712	11.1%	\$ 337,420	8.9%	\$ 337,423	9.2%
02040 Wheat & Barley Research & Mktg	1,683,340	57.0%	1,699,799	45.0%	1,702,032	46.3%
02066 Agriculture In Mt Schools Act.	12,002	0.4%	6,500	0.2%	6,500	0.2%
02268 Produce Account	5,001	0.2%	5,001	0.1%	5,001	0.1%
02340 Coal Sev. Tax Shared Ssr	386,474	13.1%	196,405	5.2%	191,261	5.2%
02453 Grain Services	279,107	9.4%	920,960	24.4%	922,123	25.1%
02461 Alfalfa Seed Assessment	24,718	0.8%	24,756	0.7%	24,787	0.7%
02692 Red In Energy Costs Irr Ag	-	-	100,000	2.6%	-	-
03225 Emap Grant/Agriculture	44,500	1.5%	220,000	5.8%	220,000	6.0%
06052 Hail Insurance	191,815	6.5%	263,818	7.0%	265,125	7.2%
Grand Total	\$ 2,953,669	100.0%	\$ 3,774,659	100.0%	\$ 3,674,252	100.0%

Non-general funds provide 91 percent of the Agricultural Development Division funding. State and other special revenues consist of wheat and barley sales tax, grain testing fees, alfalfa seed assessments, and income-tax checkoffs for Agriculture in Montana Schools, and private donations. Additionally, the Growth Through Agriculture (GTA) Program receives a share of 7.75 percent of coal severance tax collections, which is used to fund grants and operations of the Agriculture Development Council in conjunction with the GTA program. Proprietary funds come from hail insurance.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				549,087					548,706
Vacancy Savings				(59,374)					(59,363)
Inflation/Deflation				1,067					1,524
Fixed Costs				(1,056)					3,619
Total Statewide Present Law Adjustments				\$489,724					\$494,486
DP 6 - Increase in Federal Authority									
0.00	0	0	185,084	185,084	0.00	0	0	184,542	184,542
DP 10 - State Hail Insurance Base Adjustment									
0.00	0	0	0	20,044 *	0.00	0	0	0	20,096 *
DP 11 - State Grain Laboratory Base Adjustment									
0.00	0	269,891	0	269,891	0.00	0	270,736	0	270,736
DP 12 - Universal System Benefits Charge									
0.00	0	100,000	0	100,000	0.00	0	0	0	0
DP 16 - Per Diem Requests									
0.00	0	9,300	0	9,300	0.00	0	9,300	0	9,300
DP 50 - Coal Severance Tax Shared Acct Receduction									
0.00	0	(253,053)	0	(253,053)	0.00	0	(258,577)	0	(258,577)
Total Other Present Law Adjustments									
0.00	\$0	\$126,138	\$185,084	\$331,266 *	0.00	\$0	\$21,459	\$184,542	\$226,097 *
Grand Total All Present Law Adjustments				\$820,990 *					\$720,583 *

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 6 - Increase in Federal Authority - The executive requests additional federal special revenue authority to accommodate increased federal funding for marketing projects from the Western United States Agriculture Trade Association (WUSATA) and the Federal State Marketing Improvement Program (FSMIP), and for market development trade missions.

DP 10 - State Hail Insurance Base Adjustment - The executive requests an increase in proprietary funding of approximately \$20,000 per year to accommodate anticipated expenditures from the Hail Insurance fund. Due to the severe drought during 2001, the number of insured acres was down by 25 percent. Therefore, revenue from insurance premiums was also down. To compensate for the reduction in revenue, the department reduced personal services and operational expenditures accordingly. The increased appropriation would restore funding to accommodate a normal level of services.

DP 11 - State Grain Laboratory Base Adjustment - The executive requests additional state special revenue authority of approximately \$270,000 each year to bring the State Grain Laboratory budget in line with anticipated/potential expenditures. Due to the severe drought during the past several years, including the base year, agriculture producers and the grain trade provided fewer grain samples to the grain lab for analysis, reducing revenues, and therefore, expenditures in the base year. The increased appropriation would restore funding to accommodate a more normal level of services.

DP 12 - Universal System Benefits Charge - The executive requests additional authority to accommodate expenditures from the reduction in energy costs of irrigated agriculture state special revenue fund established in 69-8-412(c), MCA. Due to the unknown timing and amount of collections into this fund, the executive requests the appropriation be designated as biennial.

**LFD
ISSUE**

In the November 2002 elections, voters repealed HB 474, passed by the 2001 legislature. Subsequently, the statutory authority for the Reduction in Energy Costs of Irrigated Agriculture was eliminated. Based on a legal opinion from legislative staff, the department has returned all fiscal 2003 funding to the Department of Revenue for reallocation, and will not receive any future distribution. There is no requirement for this authority, and the executive has withdrawn the request for this DP. It should not be approved.

DP 16 - Per Diem Requests - The executive requests state special revenue authority of approximately \$9,000 each year to restore zero-based per diem to the level spent in the base year.

DP 50 - Coal Severance Tax Shared Acct Reduction - The executive proposes to reduce funding for the Growth Through Agriculture Program for the 2005 biennium, to approximately \$195,000 each year. This decision package is intended to implement executive-proposed legislation that changes the percentage of coal severance taxes allocated to the coal severance tax shared state special revenue account from 7.75 percent to 4.18 percent for the 2005 biennium only. Since excess funds in the shared account are transferred to the general fund at the end of each fiscal year, this decision package is not dependent upon the proposed legislation to enhance the general fund balance.

**LFD
ISSUE**

The executive proposal is based upon the executive projections for total coal severance tax collections. If revenues into the account do not support the level of expenditures appropriated from the account, some or all of the entities receiving funding from that account will not be able to use their full appropriation. Without monitoring and oversight by the executive, revenues from the account can be spent by the entities on a first-come, first-serve basis. Using the official revenue estimates accepted by the Revenue and Transportation Committee, proposed appropriations from the shared account exceed revenues by approximately \$84,000 during the 2005 biennium. For more information on the coal severance tax shared state special revenue account, please see the narrative for the Community Development Division within the Department of Commerce.

Program Issues

Growth Through Agriculture

Background

The 1987 legislature passed the Montana Growth Through Agriculture Act to "strengthen and diversify Montana's agricultural industry by establishing a public-private sector partnership to assist the development of innovative agricultural business organizational improvements and the commercialization and marketing of new agricultural products in order to keep pace with a transforming agricultural industry and to create new jobs and expand small business opportunities." The Department of Agriculture's GTA program has operated under that guidance since then. The Vision 2005 Task Force accomplished further definition of this goal and identified the following focus areas and goals for the Growth Through Agriculture Program in their October 1998 report to then-Governor Racicot:

Business Recruitment and Assistance

- Establish a recruiting team to target and recruit agricultural businesses which could expand Montana operations or locate a new operation in Montana
- Identify the infrastructure for business development assistance and educate businesses concerning business assistance options
- Create a source of low-cost, long-term capital for investment in agriculture and agriculture-related businesses
- Increase domestic and international Montana agricultural product sales by 500 percent from opportunities made by Montana Department of Agriculture marketing teams
- Preserve the integrity of the Plant Variety Protection Act for seed and modify current seed law to fit developing technologies

Product Development and Marketing

- Increase Montana's irrigated acres by 500,000
- Develop new niche and foreign markets
- Market one million Montana hogs annually by 2005 and two million hogs annually by 2010
- Double the value of Montana's beef cattle industry through adding value to the current production and increasing marketing efforts
- Double the value of Montana's sheep industry through adding value to the current production and increasing marketing efforts
- Develop marketing and production of alternative livestock
- Provide legislation for the development of voluntary industry check-off programs
- Develop marketing and production of alternative crops
- In areas where applicable research is being done at other universities, Montana State University will provide the conduit for that research

Infrastructure Development

- Provide recommendations for improved rail representation in state government

Professional Producer Initiatives

- Develop a public relations campaign promoting agriculture's role in the economy, environment, open space, and recreation
- Develop and implement educational programs for the enhancement of entrepreneurial activities in schools and for producers, for increased marketing, and for diversification of farm and ranch income
- Develop a proactive environmental plan of action through livestock organizations that deal with confinement livestock facilities in cooperation with state agencies that include producer and consumer education

The program operates from two major funding streams:

- A statutory appropriation of \$1.25 million general fund
- A HB2 appropriation from the coal severance tax shared state special revenue fund

The statutory appropriation was established during the May 2000 Special Session. During the August 2002 Special Session, the legislature reduced the statutory appropriation to \$925,000 for fiscal 2003 only. For the 2005 biennium, the executive proposes to reduce the statutory appropriation by 50 percent from the \$1.25 million currently established in law to \$625,000.

Through fiscal 2002, the coal severance tax shared state special revenue account received 8.36 percent of all coal severance tax collections. During the August 2002 Special Session, the legislature decreased that to 6.01 percent, to increase the amount of coal severance tax collections going directly to the general fund, and to 7.75 percent for fiscal 2004 and beyond. The reduction to 7.75 percent was made to account for a change in funding of the County Land Planning function, which was previously funded from the shared account through fiscal 2001. For the 2005 biennium, the executive proposes to reduce the percentage to 4.18, which is half of the original 8.36 percent allocation. To accommodate this reduction, the executive proposes to reduce the GTA appropriation from the shared account to approximately \$195,000 each year of the biennium.

Overall, the GTA program is projected to sustain a 50 percent reduction in both statutory and HB 2 appropriated funds when compared to fiscal 2002 levels. To analyze the potential affects on the program, it is necessary to examine the two major areas of focus within the program.

Staff Assistance Services

Program staff provide services in the areas of program oversight, business assistance, domestic and foreign marketing, and program portfolio management. During the base year, the program spent approximately \$430,000 on personal services and operating expense costs to perform these functions.

The department has compiled results and successes in meeting the goals of their staff assistance programs, but has not determined an applicable annual economic impact or number of FTE created that can be directly tied to the staff assistance initiatives. The legislature may wish to ask the department for an update on successes of and results from the staff assistance programs.

Market Development Investments

The department website states that the market development investment program "is intended to strengthen the Montana economy by enhancing agricultural research capabilities, supporting organizational improvements and market development efforts, facilitating the process of transferring research from the laboratory to the commercial marketplace, and improving access to agricultural information. The primary beneficiary of market development investments results must be the general public. Projects must demonstrate potential for commercial application by other prospective producers or processors." Additionally, potential projects must provide a minimum of a 1:1 funding match.

The Agricultural Development Council provides funding for these investments from program funds to successful applicants. Funds may be awarded in one of three categories: Investment without repayment (grant), returns on investment (ROI), or loan.

Fiscal year 2002 saw the program make awards to 40 out of 64 applicants for a total award of \$1.3 million. Of these awards, 27 were grants, 9 were ROI (deferred loans), and 4 were loans. Awards included:

- o 16 awards for market feasibility, research, and analysis
- o 11 awards for marketing plan development and implementation (typically including ROIs)
- o 5 awards for agricultural trade, education, and industry development
- o 4 awards for agricultural or rural economic development
- o 4 loans for capital assets

The majority of awards are grants for marketing plan development and feasibility studies. These funds do not directly result in any payback to the state. If the legislature desires the program to be more self-sustaining, it could require the investments be provided with a payback requirement or incentive.

Since 1989, the program has funded over 225 projects totaling over \$6.2 million. Initial match for these projects was approximately \$26.4 million in time and cash, providing a \$4.22:\$1.00 match rate for the investments. Additionally, the department states that through the use of surveys they have estimated the annual local economic impact of the GTA investments to be almost \$28.0 million, with 313.50 full-time and 73.00 part-time FTE positions created.

Other Options for Assistance and Funding

Clients and funding grant recipients served by the Growth Through Agriculture Program have a limited number of options

for obtaining similar assistance and/or funding. Some of these programs include:

Small Business Development Centers (SBDC) - This program, operated by the Department of Commerce, provides services including business assistance, training, and counseling to Montana's small businesses. Several of the businesses served by the Growth Through Agriculture Program would potentially qualify for services through this program. For more information on the SBDC program, see the narrative for the Business Resources Division within the Department of Commerce.

Trade and International Relations - This program, operated by the Department of Commerce, provides services in support of its mission to "Identify opportunities for worldwide and domestic trade and to provide representation, information and technical assistance." Several of the Agricultural Development Division domestic and foreign marketing programs, particularly the In-State and Domestic Foods and Value-Added Products Marketing Program and the International Trade and Marketing Program, could receive some level of support through the Trade and International Relations Program. The ability of this program to absorb additional projects from the Department of Agriculture would be limited by the funding provided to the Department of Commerce for those purposes. For more information on this program, see the narrative for the Business Resources Division within the Department of Commerce.

U.S. Department of Agriculture (USDA) Market Access Program funds - These funds, passed to the department through organizations such as the Western U.S. Agricultural Trade Association (WUSATA) or U.S. Livestock Genetics Export (USLGE), are currently used by the department for various marketing and development initiatives, including initiatives within the International Trade and Marketing Program. International marketing initiatives currently funded by Growth Through Agriculture Funds would have to compete with other initiatives for these funds.

Issues

There are four primary issues when discussing continuation of and funding for the Growth Through Agriculture Program

- The Growth Through Agriculture Program provides assistance in two areas: staff assistance and investment funding
- Most investment funding is awarded in the form of grants, which do not result in a direct payback
- Tangible economic impacts have not been compiled for the staff assistance services provided with Growth Through Agriculture funds, and have been estimated for investment funding
- Opportunities, although limited, do exist for similar assistance and funding to be provided through other programs

Options:

- Eliminate the Growth Through Agriculture Program, but provide some or all of the funding to programs providing similar services, such as the SBDC or Trade and International Relations programs within the Department of Commerce
- Reduce funding from the fiscal 2002 levels, and provide direction to the department as to any legislative priority for staff assistance or investment funding
- Amend statute to require a payback on any investment funds awarded
- Accept the executive proposal for the Growth Through Agriculture Program
- Eliminate the Growth Through Agriculture Program

Proprietary Rates

Program Description

Hail Insurance Program

The Hail Insurance Program (fund 06052) has been in operation since 1917. The function of the program is to provide low-cost hail insurance coverage for any crop grown in Montana to assist producers in recovering their input costs in the event of hail damage. The program insures approximately 1.4 million acres of crops with coverage exceeding \$30 million each year.

Beginning Farmer/Rancher Loan Program

The Montana Beginning Farmer/Rancher Loan Program (fund 06016) is a tax-exempt bond program designed to assist beginning farmers/ranchers in the State of Montana to acquire agricultural property at lower interest rates. The program enables lenders, individuals, partnerships, corporations, and other entities to receive federally tax-exempt interest with respect to a loan or contract sale made to a qualifying beginning farmer/rancher. The financial institution, after arranging the loan or sales contract, will obtain from the Montana Agriculture Loan Authority (the Authority) a federally tax-exempt bond in the amount of the loan or unpaid balance. The loan and its collateral will be assigned to the financial institution as security for the bond. In the case of a contract sale, the contract will be entered into by the Authority, and the financial institution will receive the bond to evidence the Authority's obligations under the contract. The Authority's right, title, and interest in the contract will then be assigned to the beginning farmer/rancher who assumes payment obligations of the Authority under the contract.

LFD COMMENT

Due to a negligible level of activity in this account, it is not shown in a separate table.

Revenues and Expenses

Hail Insurance Program

There are no changes to hail premiums charged. Hail premiums charged are set by 80-2-208, MCA, and cannot exceed \$24 per acre for non-irrigated land and \$48 per acre for irrigated land. The program is required to keep a reserve as set by 80-2-228, MCA. An actuary is hired each year to review the reserve requirements. The program pays for 2.00 full time FTE and 4.30 seasonal FTE to support program operations. In addition, the program must pay for associated operating expenses.

Beginning Farmer/Rancher Loan Program

An applicant pays a \$50 application fee and a loan participation fee of 1.5 percent of the value of the bond. These rates are unchanged from last biennium. Once the program is operational, it will fund a 0.50 FTE and related operating expenses. The FTE will not be filled until revenue will support it.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06052	Hail Insurance	62010	Dept. of Agriculture	

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	-	-	-	-	-	-
Investment Earnings	301,916	375,686	136,123	150,000	150,000	150,000
Securities Lending Income	301,916	21,170	2,453	2,500	2,500	2,500
Premiums	2,602,595	2,760,342	296,708	500,000	500,000	500,000
Other Operating Revenues	(215,372)	4,532	3,977	4,000	4,000	4,000
Total Operating Revenues	2,991,055	3,161,730	439,261	656,500	656,500	656,500
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	2,991,055	3,161,730	439,261	656,500	656,500	656,500
Operating Expenses:						
Personal Services	200,407	172,910	182,717	170,757	189,622	187,105
Other Operating Expenses	2,733,539	3,007,331	1,852,023	1,219,876	1,200,000	1,200,000
Miscellaneous, operating	8,361	10,539	9,966	84,347	76,638	78,468
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	2,942,307	3,190,780	2,044,706	1,474,980	1,466,260	1,465,573
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	2,942,307	3,190,780	2,044,706	1,474,980	1,466,260	1,465,573
Operating Income (Loss)	48,748	(29,050)	(1,605,445)	(818,480)	(809,760)	(809,073)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	48,748	(29,050)	(1,605,445)	(818,480)	(809,760)	(809,073)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	(26,226)	(5,992)	(42,254)	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	6,449,789	6,472,311	6,437,269	4,789,570	3,971,090	3,161,330
Net Income (Loss)	22,522	(35,042)	(1,647,699)	(818,480)	(809,760)	(809,073)
Retained Earnings/Fund Balances - June 30	6,472,311	6,437,269	4,789,570	3,971,090	3,161,330	2,352,257
60 days of expenses (Total Operating Expenses divided by 6)	490,385	531,797	340,784	245,830	244,377	244,262

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	68.50	1.00	(18.50)	51.00	1.00	(18.50)	51.00	51.00
Personal Services	2,767,665	485,690	(756,888)	2,496,467	488,504	(757,277)	2,498,892	4,995,359
Operating Expenses	3,414,705	529,359	(721,774)	3,222,290	478,956	(700,238)	3,193,423	6,415,713
Equipment	0	15,000	25,000	40,000	0	0	0	40,000
Grants	37,857,358	16,835,428	(38,234,502)	16,458,284	14,165,221	(40,248,513)	11,774,066	28,232,350
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$44,039,728	\$17,865,477	(\$39,688,164)	\$22,217,041	\$15,132,681	(\$41,706,028)	\$17,466,381	\$39,683,422
General Fund	1,967,443	237,999	(804)	2,204,638	234,494	(343)	2,201,594	4,406,232
State/Other Special	2,556,211	207,501	0	2,763,712	(805,795)	0	1,750,416	4,514,128
Federal Special	39,516,074	17,419,977	(39,687,360)	17,248,691	15,703,982	(41,705,685)	13,514,371	30,763,062
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$44,039,728	\$17,865,477	(\$39,688,164)	\$22,217,041	\$15,132,681	(\$41,706,028)	\$17,466,381	\$39,683,422

Agency Description

The Department of Commerce is responsible for working with economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of infrastructure. The major programs within the department include the Business Resources, Community Development, Montana Promotions, and Housing divisions, as well as the Research and Commercialization program, Montana Board of Investments, and the Montana Facility Finance Authority.

Executive Recommended Legislation

The executive proposes legislation that would eliminate the statutory funding for Research and Commercialization grants. For more information, see the narrative for the Research and Commercialization program within this agency.

The executive proposes legislation that would reduce the allocation of coal severance tax collections into the coal severance tax shared state special revenue account from 7.75 to 4.18, which is 50 percent of the original 8.36 allocation. The Coal Board Local Impact Grant program receives its funding from this account. For more information on the coal severance tax shared account and the local impact grants, see the narrative for the Community Development Division within this agency.

Agency Discussion

Department of Commerce Major Budget Highlights	
○ The executive proposes elimination of the statutory appropriation for Research and Commercialization grants and reduction of administrative funding provided in HB 2 ○ The executive continues statutory funding of economic development programs administered by the Business Services Division ○ The executive continues the current statutory collection and allocation of the Lodging Facility Use Tax (bed tax) ○ Coal Board grants are reduced by 50.0 percent across the biennium to implement a proposed change to the percent of Coal Severance Taxes statutorily allocated to the Coal Severance Tax Shared State Special Revenue Account	

Department of Commerce
Major LFD Issues

- Research and Commercialization program
 - Lack of benchmarks for success; no clear definition of intended results
 - Program has had minimal time to produce results
 - Majority of funding to Montana University System, which does not in itself create jobs in the private market
 - Program has not been reviewed to determine most effective level of funding
- Certified Communities Program
 - Program was funded without established benchmarks for success, making determination of success difficult
 - Proliferation of certified communities has resulted in a decrease in funding available to individual communities; lack of measures of success makes it difficult to determine the resulting impacts on the program
- Lodging Facility Use Tax (Bed Tax)
 - Bed tax collections continue to increase; the corresponding increase in funding to bed tax recipients is not clearly tied to any increases in services or outcomes expected of the recipients
 - Use of bed tax over past several biennia, including the August 2002 Special Session, indicates a need for a legislative review of the intent for use of the bed tax
 - Numerous possibilities exist for changes in tax structure and allocation of the collections to serve a variety of purposes
- Coal Board Local Impact Grants
 - Reduction in coal severance tax shared account allocations can be expected to significantly alter functions of entities receiving funding from that account
 - Coal Board grant reductions may potentially impact the process during a time of increased need for the grants
 - Local impact grant process is not coordinated with other state programs that could potentially provide funding
 - Executive proposed allocation exceeds official revenue estimates
 - Biennial appropriation to Coal Board may not provide flexibility desired

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

**Total Agency Funding
2005 Biennium Executive Budget**

<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Grand Total</u>	<u>Total %</u>
Research And Commercialization	\$ 176,000	\$ -	\$ -	\$ 176,000	0.4%
Business Resources Division	3,285,954	370,000	6,400,000	10,055,954	25.3%
Montana Promotion Division	-	1,518,341	-	1,518,341	3.8%
Community Development Division	944,278	2,585,787	9,481,200	13,011,265	32.8%
Housing Division	-	40,000	14,877,770	14,917,770	37.6%
Director/Management Services	-	-	4,092	4,092	0.0%
Grand Total	\$ 4,406,232	\$ 4,514,128	\$ 30,763,062	\$ 39,683,422	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	69.50	(18.50)	51.00	69.50	(18.50)	51.00	68.50	51.00
Personal Services	3,253,355	(756,888)	2,496,467	3,256,169	(757,277)	2,498,892	5,665,927	4,995,359
Operating Expenses	3,944,064	(721,774)	3,222,290	3,893,661	(700,238)	3,193,423	7,120,163	6,415,713
Equipment	15,000	25,000	40,000	0	0	0	47,399	40,000
Grants	54,692,786	(38,234,502)	16,458,284	52,022,579	(40,248,513)	11,774,066	104,439,221	28,232,350
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$61,905,205	(\$39,688,164)	\$22,217,041	\$59,172,409	(\$41,706,028)	\$17,466,381	\$117,272,710	\$39,683,422
General Fund	2,205,442	(804)	2,204,638	2,201,937	(343)	2,201,594	3,760,840	4,406,232
State/Other Special	2,763,712	0	2,763,712	1,750,416	0	1,750,416	5,296,152	4,514,128
Federal Special	56,936,051	(39,687,360)	17,248,691	55,220,056	(41,705,685)	13,514,371	108,215,718	30,763,062
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$61,905,205	(\$39,688,164)	\$22,217,041	\$59,172,409	(\$41,706,028)	\$17,466,381	\$117,272,710	\$39,683,422

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	-----Fiscal 2004-----				-----Fiscal 2005-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2 - Section 8 Housing Funding Shift										
74	(19.50)	0	0	(39,767,604)	(39,767,604)	(19.50)	0	0	(41,745,884)	(41,745,884)
DP 3 - Restore 1.00 FTE Cobb Amendment HB 2										
50	1.00	32,098	0	0	32,098	1.00	32,057	0	0	32,057
DP 4 - Restore 1.00 FTE Cobb Amendment HB 2										
74	1.00	0	0	35,244	35,244	1.00	0	0	35,199	35,199
DP 8 - HOME Project Administration Software HB 2										
74	0.00	0	0	45,000	45,000	0.00	0	0	5,000	5,000
DP 8001 - Research & Commercialization Legislation										
50	(1.00)	(32,902)	0	0	(32,902)	(1.00)	(32,400)	0	0	(32,400)
Total	(18.50)	(\$804)	\$0	(\$39,687,360)	(\$39,688,164)	(18.50)	(\$343)	\$0	(\$41,705,685)	(\$41,706,028)

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	1.00	0.00	0.00	1.00	0.00	0.00	1.00	1.00
Personal Services	83,224	(25,374)	(3,048)	54,802	(25,508)	(3,048)	54,668	109,470
Operating Expenses	37,383	(6,429)	2,244	33,198	(6,756)	2,705	33,332	66,530
Total Costs	\$120,607	(\$31,803)	(\$804)	\$88,000	(\$32,264)	(\$343)	\$88,000	\$176,000
General Fund	120,607	(31,803)	(804)	88,000	(32,264)	(343)	88,000	176,000
Total Funds	\$120,607	(\$31,803)	(\$804)	\$88,000	(\$32,264)	(\$343)	\$88,000	\$176,000

Program Description

The Board of Research and Commercialization Technology was created by the 1999 Montana Legislature to: 1) provide a predictable and stable source of funding for research and commercialization projects; 2) expand and strengthen research efforts for the state's basic industries to increase their economic impact on the state economy; and 3) expand research efforts into areas beyond the scope of the basic industries to diversify and strengthen economic security through the creation of technology-based operations and long-term quality jobs.

The board has the statutory authority to make grants or loans to research and commercialization centers if the projects to be funded:

- Have potential to diversify or add value to a traditional basic industry of the state economy
- Show promise for enhancing technology-based sectors or commercial development of discoveries
- Employ or take advantage of existing research and commercialization strengths
- Have a realistic and achievable project design
- Employ an innovative technology
- Are located in the state
- Have a qualified research team
- Have scientific merit based on peer review
- Include research opportunities for students

Program Narrative

Research and Commercialization Program	
Major Budget Highlights	
○ The executive proposes elimination of the statutory appropriation for Research and Commercialization grants and reduction of administrative funding provided in HB 2	
Major LFD Issues	
○ Lack of benchmarks for success; no clear definition of intended results ○ Program has had minimal time to produce results ○ Majority of funding to Montana University System, which does not in itself create jobs in the private market ○ Program has not been reviewed to determine most effective level of funding	

Background

The 1999 legislature passed HB 260, which established the Board of Research and Commercialization. HB 1, passed in the May 2000 special session, funded grants from the board at \$4.85 million per year through the 2005 biennium. Administrative costs are appropriated in HB 2. In the August 2002 special session, the legislature reduced the statutory transfer of general fund into the Research and Commercialization Special Revenue Account from \$4.85 million each year to \$3.165 million in fiscal 2003 and \$3.65 million in fiscal 2004 and 2005. This implemented a \$1.2 million reduction each year, in addition to a \$485,000 reduction in fiscal 2003 to implement the Governor's previously ordered expenditure reductions.

For the 2005 biennium, the executive proposes to eliminate the statutory appropriation for Research and Commercialization grants. The executive proposes to fund administrative costs for the program in HB 2 with \$88,000 general fund each year of the biennium for program oversight, including maintenance and monitoring of previously-awarded grants. This program was to sunset at the end of fiscal 2005; therefore, the executive proposal eliminates the program one biennium earlier.

The program has been active for three cycles. Over the course of issuing three requests for proposals (RFP) and approving projects out of those RFPs, the board has approved 43 projects and committed \$10.9 million in total. Figure 1 provides a breakout of the projects funded to the Montana University System (MUS), private non-profit organizations, and private for-profit organizations.

As Figure 1 shows, the major beneficiary of this program has been the MUS with 36 of the approved projects and over 88.0 percent of the grant funding. It should be noted here that for-profit organizations were not eligible for funding until the second RFP, due to a statute change eliminating the requirement for a private organization to be non-profit. Figure 1 also shows the matching funds used by these projects. Through the course of the program, Research and Commercialization funds have matched over \$15.8 million in federal funds.

Figure 1 Research and Commercialization Grants Distribution			
Grantee Affiliation	Projects Funded	Grants Awarded (millions)	Matching Funds (millions)
MUS	36	\$9.6	\$14.4
Private, Non-Profit	2	0.7	0.9
Private, For-Profit	5	0.6	0.6
Total	<u>43</u>	<u>\$10.9</u>	<u>\$15.9</u>

Statute states that funds provided for the program are "intended to enhance the economic growth opportunities for Montana." The program has no statutory benchmarks or standards of success that it is directed to achieve, nor is there a definition of what results qualify as "enhancing economic growth opportunities." The statutory criteria for applicant review provide an idea of the type of project desired, but do not identify what determines a successful project upon completion, at least in the context of determining the overall success of the program.

Evidence of success provided by the department and program supporters includes the number of jobs created through the funded projects, the amount of matching funds pulled in by projects, and the number of funded projects which have resulted in commercialization. As of November 21, 2002, five projects had resulted in commercialization directly related to the research funded. No economic impact data for those projects has been provided. Other than those projects, the only tangible result of the program, to date, appears to be the funding of research positions and projects, which, at least initially, primarily benefits only the recipients of the funds.

The department states "Initial program success will be measured by the successful completion of the first round of projects in 2003. Long-term success will be measured by the positive impacts on the state's economy." It is understandable that many economic impacts of the funded projects may take years to fully develop. If continuation of the program is to be based on certain standards of success, the legislature may wish to identify a timeline for attainment of those standards in order to fairly assess program results.

There are four primary issues when analyzing the Research and Commercialization program:

- The program was created with no benchmarks for success or clear definition of intended results. That lack of benchmarks provides a challenge when trying to ascertain whether the program is accomplishing what was originally intended. The department has provided data and anecdotal evidence on the successes of the program. How the funded projects and results meet the intent provided is a vague comparison with no real standard for making that decision
- Under current law, the program sunsets at the end of fiscal 2005. The program has had a minimal amount of time in which to produce tangible results in several areas the legislature may desire to measure, such as permanent jobs created, tax income (individual/corporate) created, and sales revenue associated with the commercialized technology
- Most funds are awarded to the MUS, which does not necessarily result in the creation of new jobs in the private market
- The level of funding is not directly based on a survey of need or a "balance" of funding only projects with a specific projected level of success. There has not been a review of the program funding level since the program was created

Options:

- Accept the executive recommendation to eliminate the program and provide administrative funding in HB 2, but fund that position as one-time-only and amend statute to include requirements for specific reporting on certain measures of success, such as the economic impact of successful commercialization, permanent jobs created, dollar amount of matching funds created, or other legislatively-determined criteria
- Continue to fund the program at the level currently established in law, but amend statute to require certain measures of success. These measures could include the economic impact of successful commercialization, permanent jobs created, dollar amount of matching funds created, or other legislatively-determined criteria. This statute change should also include a timeline for establishing program success, and could include extending the program based upon a determination of success
- Do not eliminate the program, but place the funding on 'hold' for the 2005 biennium to allow further time for the program to produce measurable results in meeting standards established by the legislature
- Fund the program at a lower level, based on a review of funded projects to date and a legislative determination of a new cutoff level for project awards, based on changing or adding criteria for applicant review. Such criteria changes could include: requiring a certain level of matching funds or requiring the creation of new jobs. This option would require a statute change
- Fund the program at a lower level, but require a pay back to help fund administrative and grant costs. This option would require a statute change
- Other legislature-determined option, including some/none of the recommendations above

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Research And Commercialization						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 120,607	100.0%	\$ 88,000	100.0%	\$ 88,000	100.0%
Grand Total	\$ 120,607	100.0%	\$ 88,000	100.0%	\$ 88,000	100.0%

The Board of Research and Commercialization administrative functions are funded entirely with general fund.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					(26,139)					(26,278)
Vacancy Savings					(2,283)					(2,278)
Inflation/Deflation					36					79
Fixed Costs					(1,136)					(1,361)
Total Statewide Present Law Adjustments					(\$29,522)	(\$29,838)				
DP 11 - Administrative Cost Adjustments HB 2										
	0.00	(2,281)	0	0	(2,281)	0.00	(2,426)	0	0	(2,426)
Total Other Present Law Adjustments										
	0.00	(\$2,281)	\$0	\$0	(\$2,281)	0.00	(\$2,426)	\$0	\$0	(\$2,426)
Grand Total All Present Law Adjustments					(\$31,803)	(\$32,264)				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 11 - Administrative Cost Adjustments HB 2 - The executive proposes to decrease general fund by approximately \$2,000 each year for the following adjustments:

- Remove one-time moving costs from the base
- Carry forward base year expenditures for per diem and overtime (zero-based)
- Increased rent due to the move from the Capital Complex into the former Federal Building
- Decreased expenditures for agency indirect charges

LFD ISSUE

The Board of Research and Commercialization is established in 2-15-1819, MCA. Responsibilities of the board, as outlined in 90-3-1003, MCA, are limited to activities culminating in the award of grants. For the 2005 biennium, the executive proposes to eliminate all grant funding for the Research and Commercialization Program, effectively removing the need for a Board of Research and Commercialization. If the Board of Research and Commercialization is eliminated, per diem expenditures can be eliminated from this request.

Options:

- Request legislation eliminating the Board of Research and Commercialization and do not fund per diem costs in this decision package
- Approve the executive proposal as presented

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General	State Special	Federal Special	Total Funds	General	State Special	Federal Special	Total Funds	
DP 3 - Restore 1.00 FTE Cobb Amendment HB 2										
50	1.00	32,098	0	0	32,098	1.00	32,057	0	0	32,057
DP 8001 - Research & Commercialization Legislation										
50	(1.00)	(32,902)	0	0	(32,902)	(1.00)	(32,400)	0	0	(32,400)
Total	0.00	(\$804)	\$0	\$0	(\$804)	0.00	(\$343)	\$0	\$0	(\$343)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 3 - Restore 1.00 FTE Cobb Amendment HB 2 - The executive requests approximately \$32,000 general fund in each year of the biennium to restore 1.0 FTE eliminated by boilerplate language in HB 2. This language eliminated 1.0 FTE only, leaving the funding, but directed that the FTE was not to be funded in the executive present law budget. Therefore, this FTE is being restored in this decision package. This FTE would establish a currently modified program specialist position that supports the board and the executive director as permanent.

DP 8001 - Research & Commercialization Legislation - This decision package implements executive-proposed legislation that eliminates the Board of Research and Commercialization, the Research of Commercialization program, and its statutory funding. This decision packages eliminates 1.0 FTE and reduces general fund by approximately \$33,000 each year of the biennium. The net result of this decision package, in combination with DP 3, is to fund the program with \$88,000 each year for program administration, including the maintenance and monitoring of grants previously awarded by the board.

LFD ISSUE

The net result of DP 3 and DP 8001, when placed together, is to continue the program as funded in the adjusted base, including the continuation of the 1.0 FTE program administrator position. Therefore, if the legislature wishes to accept the executive proposal to eliminate the statutory funding but retain 1.0 FTE to manage and monitor previously awarded grants, it has two options:

- o Do not approve either DP 3 or DP 8001
- o Approve both DP 3 and DP 8001

LFD COMMENT

For more information on the Research and Commercialization program, please see the program issues section of this narrative.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	26.50	0.00	0.00	26.50	0.00	0.00	26.50	26.50
Personal Services	1,023,661	281,864	0	1,305,525	283,368	0	1,307,029	2,612,554
Operating Expenses	1,538,165	63,440	0	1,601,605	58,728	0	1,596,893	3,198,498
Grants	2,122,451	0	0	2,122,451	0	0	2,122,451	4,244,902
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$4,684,277	\$345,304	\$0	\$5,029,581	\$342,096	\$0	\$5,026,373	\$10,055,954
General Fund	1,455,744	188,837	0	1,644,581	185,629	0	1,641,373	3,285,954
State/Other Special	178,014	6,986	0	185,000	6,986	0	185,000	370,000
Federal Special	3,050,519	149,481	0	3,200,000	149,481	0	3,200,000	6,400,000
Total Funds	\$4,684,277	\$345,304	\$0	\$5,029,581	\$342,096	\$0	\$5,026,373	\$10,055,954

Program Description

The Business Resources Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate. Working closely with the private sector, economic and community development partners, other department divisions, state agencies, and federal and private programs; the division strives to enhance the economic base of Montana through business creation, expansion, and retention efforts. Bureaus and programs within the division include:

- Census and Economic Information Center (CEIC)
- Trade and International relations Bureau
- Regional Development Bureau
- Small Business Development Center Bureau

Program Narrative

Business Resources Division Major Budget Highlights	
○	Executive continues funding of economic development programs at fiscal 2002 levels, including statutory and HB 2 funded program
Major LFD Issues	
○	Certified Communities Program • Program was funded without established benchmarks for success, making determination of success difficult • Proliferation of certified communities has resulted in a decrease in funding available to individual communities; lack of measures of success make it difficult to determine the resulting affects on the program

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Business Resources Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,455,744	31.1%	\$ 1,644,581	32.7%	\$ 1,641,373	32.7%
02090 Business Asst-Private	45,361	1.0%	45,000	0.9%	45,000	0.9%
02191 Montana Capitol Co. Act	14,709	0.3%	15,000	0.3%	15,000	0.3%
02210 Microbusiness Admin Acct	117,944	2.5%	125,000	2.5%	125,000	2.5%
03059 Community Development Block	2,248,408	48.0%	2,250,000	44.7%	2,250,000	44.8%
03061 Eda Revolving Loan Fund	21,867	0.5%	100,000	2.0%	100,000	2.0%
03075 Sba Microloan	135,962	2.9%	145,000	2.9%	145,000	2.9%
03207 Small Business Dev. Centers	520,367	11.1%	550,000	10.9%	550,000	10.9%
03671 Sba Fast Program	43,913	0.9%	70,000	1.4%	70,000	1.4%
03956 Sba Innovative Research Prgm	80,002	1.7%	85,000	1.7%	85,000	1.7%
Grand Total	\$ 4,684,277	100.0%	\$ 5,029,581	100.0%	\$ 5,026,373	100.0%

The Business Resources Division is funded by a combination of 23.0 percent general fund, 4.0 percent state special revenue, and 73.0 percent federal funds. General fund in the program supports the following:

- o CEIC
- o Regional Development
- o Trade and International Relations
- o State match for administrative costs associated with Small Business Development Center funding

Figure 2 shows the allocation of general fund in the executive request.

Community development block grants and Small Business Development Centers are primarily funded with federal funds, with state special revenue from private industry partnering providing a portion of the funding.

The Trade and International Relations program receives additional funding from Travel Montana's allocation of the lodging Facility Use Tax, which amounts to approximately \$200,000 annually. Since Lodging Facility Use Tax revenues are statutorily appropriated, this amount does not require legislative appropriation in HB 2 and as a result, does not appear in the funding tables. The Trade and International Relations program also receives funding from the Growth Through Agriculture Program in the Department of Agriculture. The Agricultural Development Council determines the amount of grant funds to be transferred to the division, which has typically been \$90,000 per year for this purpose.

Figure 2 Business Resources Division HB2 General Fund Allocation		
Bureau	Fiscal 2004	Fiscal 2005
CEIC	\$373,737	\$373,714
Regional Development	709,011	708,424
SBDC	194,657	192,382
Trade	367,176	366,853
Total	\$1,644,581	\$1,641,373

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				331,078					332,746
Vacancy Savings				(54,093)					(54,257)
Inflation/Deflation				2,075					2,406
Fixed Costs				(10,848)					(18,213)
Total Statewide Present Law Adjustments				\$268,212					\$262,682
DP 12 - Administrative Costs Adjustments HB0002									
0.00	77,092	0	0	77,092	0.00	79,414	0	0	79,414
Total Other Present Law Adjustments									
0.00	\$77,092	\$0	\$0	\$77,092	0.00	\$79,414	\$0	\$0	\$79,414
Grand Total All Present Law Adjustments				\$345,304					\$342,096

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 12 - Administrative Costs Adjustments HB0002 - The executive requests a general fund increase of approximately \$80,000 each year for the following:

- o Increased rent due to moving into the Old Federal Building (\$100,000 each year)
- o Carry forward base year expenditures for overtime (zero-based) (\$5,000 each year)
- o Increased expenditures for agency indirect charges (\$34,000 each year)
- o Remove one-time moving costs from the base (\$57,000 reduction each year)
- o General reductions to meet agency general fund target (\$3,700 reduction each year)

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

Program Issues

The Business Resources Division administers several statutorily-funded economic development programs. HB 1, passed in the May 2000 special session, included funding for business recruitment, a small business development center, small business innovative research, Certified Communities, the Montana Manufacturing Extension Center at MSU-Bozeman, and export trade enhancement activities. HB 1 funded these activities through the 2005 biennium.

HB 10, passed in the August 2002 special session, eliminated the funding for the Certified Communities program in fiscal 2003, but did not change the funding for fiscal 2004 and 2005.

Figure 3 provides a breakout of the annual funding allocated to these programs for the 2005 biennium.

Figure 3
Business Resources Division
Statutory Funding

Program	Annual Funding
Small Business Development Center	\$ 125,000
Small Business Innovative Research Program	50,000
Certified Communities Program	425,000
Montana Manufacturing Extension Center	200,000
Export Trade Enhancement	300,000
Total Funded	\$1,100,000

Small Business Development Centers

The stated mission of the Montana Small Business Development Center (SBDC) program is "to help start-up and existing businesses to prosper by providing information and assistance through quality one-on-one counseling and training." The program's lead center is based in Helena, with local subcenters based in 10 major Montana communities.

The program is funded with \$500,000 of federal Small Business Administration (SBA) funds, approximately \$200,000 (including the \$125,000 statutory appropriation) in general fund, which funds the

required state match portion of administrative costs, and local match funds (\$221,000 in fiscal 2003). Per conversation with the SBA, the state match currently funded and proposed represents the minimum level of match. Funds spent in other programs and local match funds are ineligible to meet state match requirements. Elimination of the direct state match funding would result in the loss of the entire amount of SBA funding.

As stated in the mission, the program focuses on both start-up and existing businesses, and strives to provide the following services:

- o Individualized counseling (main service)
- o Individualized training (main service)
- o Information research (secondary service)
- o Libraries and resource materials (secondary service)
- o Assistance to businesses attending trade shows (secondary service)

Topics covered by the individual counseling and training sessions may include business plan preparation, starting a business, financial planning, market research & analysis, loan packaging, accounting, promotion and selling, and management skills. In calendar year 2001, 1,283 clients were counseled individually by the Montana SBDC network, and an additional 1,581 clients attended training sessions provided by the SBDC network.

There are no comparable state-funded programs in Montana for businesses to receive these services, although there are a variety of private services available. Therefore, reducing or eliminating general fund would result in a loss of service only to those clients currently served by the SBDC program who could not afford private counseling and training.

Small Business Innovative Research Program

By law, federal agencies with an external research and development budget over \$100 million are required to set aside 2.5 percent of that budget for a Small Business Innovative Research Program (SBIR) program. Currently, 10 federal agencies participate in SBIR programs. The Montana SBIR program is designed to help for-profit businesses in Montana take advantage of federal funding within federal SBIR programs, by providing technical assistance to those businesses competing for grants.

The SBIR program is funded with approximately \$50,000 of federal Rural Outreach funds, \$35,000 of Federal and State Technology (FAST) funds, and \$50,000 of general fund. The general fund is used as the required state match portion of the administrative costs of the program. Elimination of the state match funding would result in the loss of at least \$50,000 federal funds.

In calendar year 2000, 24 Montana companies were awarded over \$5 million in grants. In calendar year 2001, 35 companies were awarded over \$11 million in grants.

Certified Communities

90-1-116, MCA provides the mechanism for the state to provide economic development grants to communities on a matching grant basis of \$1.00 state funds to \$1.00 local funds. The purpose of the Certified Communities program as defined by the department is "to establish and maintain an active network of trained communities that are prepared to respond quickly and efficiently to economic development opportunities." The statutory \$425,000 is the sole source of state funding for the program, with approximately \$38,000 of that being spent for contract administration. There are currently 65 Certified Community lead organizations, with some of those organizations representing several smaller communities, leaving an average of less than \$6,000 in state funding per community. In the August 2002 special session, the legislature eliminated the fiscal 2003 funding for the Certified Communities program, while fiscal 2004 and 2005 funding was left intact. The main reason cited for eliminating the fiscal 2003 funding was that the growing number of certified communities had resulted in a 'watering-down' of the funding available to communities, and therefore had weakened the individual and overall support the program was able to provide. For the 2005 biennium, the executive proposes no changes. Funding for the program sunsets at the end of fiscal 2005.

Elimination of the funding will not eliminate the standing of organizations already certified, nor their authority to still function as an independent organization to promote economic development within their area of responsibility. Additionally, elimination of state funding does not on its own alter the funding available to the communities as matching funds, although the elimination of state funding could cause entities pledging matching funds to withdraw support.

There are two primary issues when analyzing the Certified Communities program:

- The program was funded without statutory benchmarks for success, which provides a challenge for the legislature when determining whether to continue the program
- The reduction in available grants to each community has potentially altered the program's affects on communities from those results intended when the statutory appropriation was created. Without benchmarks for success, this is difficult to determine

Options:

- o Eliminate the program. This option would require a statute change
- o Continue the program, but amend statute to provide benchmarks for success such as: number of communities certified, percentage of matching funds leveraged, or number of jobs created

Montana Manufacturing Extension Center (MMEC) at MSU-Bozeman

While funding for this program is appropriated to the Department of Commerce for the purpose of transferring to the MMEC, this program is in actuality a Montana University System program.

The goal of the MMEC is for its engineers to bring real-world manufacturing experience, a wide variety of specialized skills, and progressive management experience to manufacturing clients throughout Montana, through consulting and counseling. There are currently five field engineers located in Billings, Bozeman, Helena, Missoula, and Kalispell.

The MMEC operates on \$480,000 of federal National Institute of Standards and Technology funds, and \$200,000 of state funds.

Export Trade Enhancement

The Office of Trade and International Relations works to identify opportunities for worldwide and domestic trade and to provide representation, information, and technical assistance to Montana businesses wishing to diversify their customer base, with an additional benefit of increasing the sales of Montana products and services. The program coordinates the activities of the state's overseas offices in Taiwan and Japan, manages the Made in Montana program, coordinates international cultural and educational exchange programs, and serves as the protocol office for the Governor's office. The program works closely with the product promotion efforts of Travel Montana and the Department of Agriculture.

The Office of Trade and International Relations does not operate solely on the \$300,000 statutory general fund appropriation. Additionally, the program receives approximately \$80,000 of general fund appropriated to the Business Resources Division in HB 2, and historically has been allocated a portion of Accommodations Tax funding (\$200,000) from Travel Montana and Growth Through Agriculture funding (\$90,000) from the Agricultural Development Council.

**LFD
COMMENT**

The executive budget is balanced based on the assumed passage of several pieces of legislation to be introduced in the 2003 session. One proposal for legislative consideration is the reduction of the statutory general fund appropriation to the Growth Through Agriculture program, administered by the Department of Agriculture, from \$1.25 million each year, to \$625,000 each year. This reduction in funding could result in reduction or elimination of the Growth Through Agriculture support to the Trade and International Relations program.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	654,172	114,169	0	768,341	95,828	0	750,000	1,518,341
Total Costs	\$654,172	\$114,169	\$0	\$768,341	\$95,828	\$0	\$750,000	\$1,518,341
State/Other Special	654,172	114,169	0	768,341	95,828	0	750,000	1,518,341
Total Funds	\$654,172	\$114,169	\$0	\$768,341	\$95,828	\$0	\$750,000	\$1,518,341

Program Description

The Montana Promotion Division works toward increased visitor travel and expenditures, and the filming of motion pictures and commercials in the state. It does this through consumer advertising, publicity, international and domestic group travel marketing, printing and distribution of literature, and marketing to motion picture and television production companies. The division is funded primarily by the statutorily-appropriated Lodging Facility Use Tax and uses these monies to provide training and assistance to the Montana tourism industry, administer and distribute infrastructure grants, and oversee expenditures of six regional non-profit corporations and the nine specific cities where Lodging Facility Use Tax collections exceed \$140,000.

Program Narrative

Montana Promotion Division Major Budget Highlights	
Continuation of statutory appropriations from bed tax collections	
Major LFD Issues	
- Bed tax collections continue to increase; the corresponding increase in funding to bed tax recipients is not clearly tied to any increases in services or outcomes expected of the recipients - Use of bed tax over past several biennia, including the August 2002 special session, indicates a need for a legislative review of the intent for use of the bed tax - Numerous possibilities exist for changes in tax structure and allocation of the collections to serve a variety of purposes	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Montana Promotion Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02116 Accommodation Tax Account	\$ 15,149	2.3%	\$ 18,341	2.4%	\$ -	-
02154 Mt Promotion-Private	639,023	97.7%	750,000	97.6%	750,000	100.0%
Grand Total	\$ 654,172	100.0%	\$ 768,341	100.0%	\$ 750,000	100.0%

Background

In 1987, the Montana legislature created the Lodging Facility Use Tax, more commonly referred to as Montana's "bed tax." This tax equals 4.0 percent of the rate charged by a lodging facility, and is collected from customers of the facility upon payment. The tax can only be based on the fees charged for lodging, and cannot include the costs for meals, transportation, entertainment, or any other similar charges. The bed tax is reported and paid by each lodging facility to the Montana Department of Revenue on a quarterly basis.

Pursuant to the statement of intent provided by the legislature when it enacted the bed tax, all proceeds are to be dedicated to the promotion of Montana's travel and tourism industries. Of the total collections, \$400,000 is allocated to the Montana Heritage Preservation and Development Account for the purpose of purchasing, restoring, and maintaining historically significant properties in Montana that are in need of preservation. Additionally, state funds are reimbursed for any bed tax paid by state employees while on official business, and the Department of Revenue is allowed to keep an amount based on estimated costs of collecting and disbursing the proceeds from the tax (currently 2.3 percent of collections). The remaining proceeds are statutorily allocated as follows:

- 67.5 percent to the Department of Commerce
- 22.5 percent to be distributed by the Department of Commerce to regional nonprofit tourism corporations as defined in 15-65-101 (6), MCA
- 6.5 percent to the Department of Fish, Wildlife, and Parks for maintenance of facilities in state parks that have both resident and nonresident use
- 2.5 percent to the Commissioner of Higher Education for operation of the Institute for Tourism and Recreation Research at the University of Montana
- 1.0 percent to the Montana Historical Society to be used for the installation or maintenance of roadside historical signs and historical sites

Of those amounts, the largest share is the 67.5 percent to the Department of Commerce to operate the Montana Promotion Division. The division uses this funding in addition to the state special revenue funded in HB 2 to promote the tourism industry in Montana. The January 2002 annual Report on the Montana Tourism Industry breaks Montana Promotion Division spending into the following categories:

- Consumer Marketing - 36.6 percent
- Tourism Development and Superhost - 14.1 percent
- Telemarketing and Fulfillment - 9.2 percent
- Group Conventions and Overseas Marketing - 8.6 percent
- Publications - 7.8 percent
- Information Services - 7.1 percent
- General Administration and Industry Services - 6.5 percent
- Film Industry Promotion - 4.3 percent
- Publicity - 3.7 percent
- Visitor Information Centers - 2.0 percent

Collection and Distribution

Figure 4 below shows bed tax collections since the inception of the Lodging Facility Use Tax in fiscal 1988. Additionally, Figure 5 shows the allocation of the bed tax for the previous five years.

Figure 4

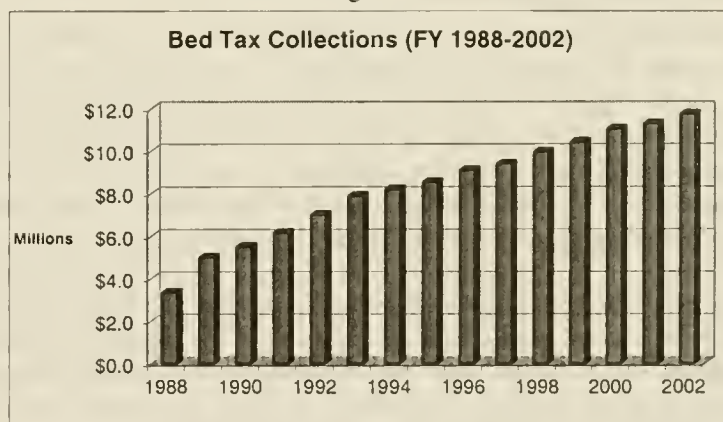


Figure 5
Accommodations Tax Distribution
Fiscal 1998 - Fiscal 2002

	Distribution Basis	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
Gross Accommodations Tax Receipts		\$10,008,143	\$10,420,017	\$11,038,724	\$11,283,684	\$11,720,557
Department of Revenue	(Reimburse travel/cover costs)	\$208,034	\$312,601	\$253,891	\$259,525	\$269,573
MT Heritage Preservation & Development	Fixed	400,000	400,000	400,000	400,000	400,000
Net Facility Use Tax for Distribution		\$9,400,109	\$9,707,416	\$10,384,833	\$10,624,159	\$11,050,984
Historical Society	1% of net	\$94,001	\$97,074	\$103,848	\$106,242	\$110,510
Higher Education	2.5% of net	235,003	242,685	259,621	265,604	276,275
Fish, Wildlife, & Parks	6.5% of net	611,007	630,982	675,014	690,570	718,314
Department of Commerce						
For Department Use	67.5% of net	\$6,345,073	\$6,552,506	7,009,762	\$7,171,307	7,459,414
For Distribution to Regions and Cities	22.5% of net	2,115,024	2,184,169	2,336,587	2,390,436	2,486,471

Bed tax proceeds are automatically distributed according to statute. Therefore, each agency's allocation will increase or decrease each year based on total collections. As shown in Figure 4, over the past nine years, collections have increased an average of 4.0 percent each year. Therefore, so have the allocations to each entity receiving a portion of the bed tax. Due to the statutory allocation of the bed tax, the only limit on agency allocations is the amount of overall revenues collected. Although statute provides the allocation of the funding, it does not specify a certain level of service to be provided by the recipients. Additionally, since funds are not appropriated in HB 2, the legislature often does not thoroughly review expenditures and issues for programs receiving all or a portion of their funding from the bed tax.

Potential for Expanded Use

For several biennia and with expansion in the August 2002 special session, the legislature has included language in HB 2 directing the Department of Commerce to use a portion of the department's allocation of bed tax funding for programs in agencies such as the Montana Historical Society, the Montana Arts Council, and the Museum of the Rockies. Similar language is recommended by the executive for the 2005 biennium. Additionally, the legislature passed HB 18 during the August 2002 special session, directing a transfer in fiscal 2003 of \$1.7 million of bed tax revenues into the general fund. The transfer was based on the argument that tourism places certain burdens on community infrastructure, thereby making it appropriate to use a portion of tourism tax funding for purposes such as general fund allocations to local governments.

Consequently, legislative review of the original intent for use of bed tax collections and subsequent updating of that intent is probably warranted. As an example, if the legislature wishes to use a portion of the bed tax collections to address impacts of the travel and tourism industry, it would not be unlike the use of a portion of the Coal Severance Tax collections to fund the Coal Board Local Impact grants. For further information on the Coal Board grants, please see the narrative for the Community Development Division.

As stated above, funding and expectation of level of service are not inextricably tied. Through the history of the bed tax, various legislators have recognized this and unsuccessfully tried to modify the allocation of the bed tax and/or the amount of the tax. Many examples cap the allocations to bed tax recipients at an amount equal the actual allocations during a given year, then de-earmark additional revenues, with or without an increase in the tax. Figure 6 is an example of such a modification to bed tax allocations. In this example, the bed tax would be doubled to 8.0 percent. Individual allocations would be capped at the fiscal 2002 levels and remaining proceeds would be de-earmarked to the general fund. Additionally, impact on the general fund would vary if residents were allowed to claim a tax credit on all or a portion of any bed tax paid.

Figure 6
Lodging Facility Use Tax Calculations

Current Law (Fiscal 2002)		Proposed Credit-Keep Current Allocations		Proposed Credit-Keep Current Allocations	
		Tax 8%, tax credit on entire tax paid		Tax 8%, tax credit on 4% increase	
Current Tax Percentage	4.00%	New Tax Percentage	8.00%	New Tax Percentage	8.00%
Estimated Resident Portion	0.4	Estimated Resident Portion	0.4	Estimated Resident Portion	0.4
Estimated Non-resident Portion	0.6	Estimated Non-resident Portion	0.6	Estimated Non-resident Portion	0.6
Fiscal 2000 Revenues	<u>\$11,720,557</u>	Projected Revenues	<u>\$23,441,114</u>	Projected Revenues	<u>\$23,441,114</u>
Under Current Tax		Under New Tax		Under New Tax	
Amounts Paid by State Employees	\$143,205	Amounts Paid by State Employees	\$286,410	Amounts Paid by State Employees	\$286,410
Amounts Paid by Residents	4,630,941	Amounts Paid by Residents	9,261,882	Amounts Paid by Residents	9,261,882
Amounts Paid by Non-residents	<u>6,946,411</u>	Amounts Paid by Non-residents	<u>13,892,822</u>	Amounts Paid by Non-residents	<u>13,892,822</u>
Total	\$11,720,557	Total	\$23,441,114	Total	\$23,441,114
Off-the-top Allocation		Off-the-top Allocation		Off-the-top Allocation	
Department of Revenue	\$ 126,368	Department of Revenue	\$126,368	Department of Revenue	\$126,368
State Employee Deposits to GF	\$ 143,205	Refund for State Employee Travel	286,410	Refund for State Employee Travel	286,410
Heritage Preservation & Devel	<u>400,000</u>	Heritage Preservation & Development	<u>400,000</u>	Heritage Preservation & Development	<u>400,000</u>
Total	\$669,573	Total	\$812,778	Total	\$812,778
Remaining Amount for % Allocations	<u>\$11,050,984</u>	Remaining Amount for Allocation	<u>\$22,628,336</u>	Remaining Amount for Allocation	<u>\$22,628,336</u>
Current Percentage Allocations		New Percentage Allocations		New Percentage Allocations	
Department of Commerce	67.5% \$7,459,414	Department of Commerce	33.0% \$7,459,414	Department of Commerce	33.0% \$7,459,414
General Fund	0% 0	General Fund	51.2% 11,577,352	General Fund	51.2% 11,577,352
Regional Nonprofit Tourism Corps	22.5% 2,486,471	Regional Nonprofit Tourism Corps	11.0% 2,486,471	Regional Nonprofit Tourism Corps	11.0% 2,486,471
Fish, Wildlife and Parks	6.5% 718,314	Fish, Wildlife and Parks	3.2% 718,314	Fish, Wildlife and Parks	3.2% 718,314
Commissioner of Higher Education	2.5% 276,275	Commissioner of Higher Education	1.2% 276,275	Commissioner of Higher Education	1.2% 276,275
Montana Historical Society	1.0% 110,510	Montana Historical Society	0.5% 110,510	Montana Historical Society	0.5% 110,510
Total	100.0% \$11,050,984	Total	100.0% \$22,628,336	Total	100.0% \$22,628,336
		Reduction in Income Tax Revenue	(\$7,872,599)	Reduction in Income Tax Revenue	(\$3,936,300)
		Collections to General Fund	<u>11,577,352</u>	Collections to General Fund	<u>11,577,352</u>
		Net Impact to general fund:	<u>\$3,704,753</u>	Net Impact to general fund:	<u>\$7,641,052</u>
Assumptions					
Percentage of taxes paid by MT residents: 40% (ITRR, plus adjustment for business travel)					
Percentage of taxpayers to apply for credit: 85%					
Assumes increased tax does not lessen number of rooms rented					
Assumes no change in rooms rented due to changes in allocations					
Assumes Department of Revenue costs to collect tax will not increase					

Issues

- Bed tax collections have increased at a rate of 4.0 percent over the past nine years, as have allocations of the bed tax to the recipients indicated in Figure 5. The increase in allocations is not clearly tied to any increases in services or outcomes expected of the recipients. The current statutory allocation puts all collections directly into the hands of entities previously defined as relating to tourism, with no flexibility allowing for other uses
- Allocation of the bed tax should be determined based on a legislative review and determination of a philosophy for use of the collections from that tax
- Based on that determination, there are numerous possibilities for changes in tax structure and allocation of the collections to serve a variety of purposes

Options

- If the legislature wishes to expand use of the bed tax to allow support to other tourism and travel related issues, such as impact on local communities, it could amend statute to alter the tax and distribution structure. Proceeds could be earmarked for local governments or other legislatively-determined uses
- If the legislature wishes to expand use of the bed tax to allow support for other functions not necessarily related to travel and tourism, it could amend statute to alter the tax and distribution structure. Some or all of the proceeds could be de-earmarked to the general fund. If all proceeds are de-earmarked, entities currently funded with the bed tax would compete with other state programs for general fund
- If the legislature wishes to maintain the original intent and current tax and distribution structure, it can take no action

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Fixed Costs				3,192					(15,149)	
Total Statewide Present Law Adjustments				\$3,192					(\$15,149)	
DP 15 - Private Funds Adjustment HB 2										
0.00	0	110,977	0	110,977	0.00	0	110,977	0	110,977	
Total Other Present Law Adjustments										
0.00	\$0	\$110,977	\$0	\$110,977	0.00	\$0	\$110,977	\$0	\$110,977	
Grand Total All Present Law Adjustments				\$114,169					\$95,828	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 15 - Private Funds Adjustment HB 2 - The executive requests an increase in state special revenue authority to bring funding to a level of \$750,000 each year, based on past and projected needs.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	17.00	1.00	0.00	18.00	1.00	0.00	18.00	18.00
Personal Services	732,269	158,840	0	891,109	159,180	0	891,449	1,782,558
Operating Expenses	488,197	160,244	0	648,441	156,587	0	644,784	1,293,225
Equipment	0	0	0	0	0	0	0	0
Grants	5,626,816	(161,327)	0	5,465,489	(1,156,823)	0	4,469,993	9,935,482
Total Costs	\$6,847,282	\$157,757	\$0	\$7,005,039	(\$841,056)	\$0	\$6,006,226	\$13,011,265
General Fund	391,092	80,965	0	472,057	81,129	0	472,221	944,278
State/Other Special	1,724,025	66,346	0	1,790,371	(928,609)	0	795,416	2,585,787
Federal Special	4,732,165	10,446	0	4,742,611	6,424	0	4,738,589	9,481,200
Total Funds	\$6,847,282	\$157,757	\$0	\$7,005,039	(\$841,056)	\$0	\$6,006,226	\$13,011,265

Program Description

The Community Development Division works with federal, state, and local governments and the private sector in all areas of community development including public facilities planning and financing, community planning and growth management, subdivision regulation and zoning, housing development for low- and moderate-income families, neighborhood revitalization, needs assessment, coal and hard rock mining mitigation, and project management.

There are three major programs within the bureau: the Community Technical Assistance Program (CTAP), the Community Development Block Grant Program (CDBG), and the Treasure State Endowment Program (TSEP). The Montana Coal Board and the Montana Hard Rock Mining Impact Board and their respective programs are attached to the bureau for administrative purposes. These five programs, individually and collectively, provide both financial and technical assistance to Montana communities, local elected officials and staff, nonprofit organizations, private sector developers and consultants, and private citizens.

Other assisted entities include local planning boards and zoning commissions, community development corporations, human resource development councils, water and sewer districts, fire departments, and housing authorities.

Program Narrative

Community Development Division Major Budget Highlights	
o	Executive reduces Coal Board funding by 50 percent to implement legislative change to allocation of coal severance taxes
Major LFD Issues	
o	Reduction in coal severance tax shared account allocations can be expected to significantly alter functions of entities receiving funding from that account
o	Coal Board grant reductions may potentially impact the process during a time of increased need for the grants
o	Local impact grant process is not coordinated with other state programs that could potentially provide funding
o	Executive proposed allocation exceeds official revenue estimates
o	Biennial appropriation to Coal Board may not provide flexibility desired

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Community Development Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 391,092	5.7%	\$ 472,057	6.7%	\$ 472,221	7.9%
02015 Tsep Regional Water Systems	-	-	-	-	-	-
02049 Hard Rock Mining	136,582	2.0%	270,040	3.9%	271,024	4.5%
02270 Treasure State Endowment	379,074	5.5%	406,070	5.8%	406,235	6.8%
02340 Coal Sev. Tax Shared Ssr	1,208,369	17.6%	1,114,261	15.9%	118,157	2.0%
03059 Community Development Block	4,732,165	69.1%	4,742,611	67.7%	4,738,589	78.9%
Grand Total	\$ 6,847,282	100.0%	\$ 7,005,039	100.0%	\$ 6,006,226	100.0%

- The Hard Rock Mining Board is funded by a 2.5 percent allocation of the Metalliferous Mines License Tax
- The CDBG program is primarily funded with federal block grant funds. The general fund provides a HUD-mandated match for a portion of the administrative costs of the program
- TSEP is funded by interest earnings from the permanent Coal Tax Trust
- CTAP is funded through the general fund. CTAP funding also provides the rest of the CDBG program state match required by HUD
- The Coal Board competes with three other programs (Growth Through Agriculture, State Library Commission, and Conservation Districts) for a share of 7.75 percent of Coal Severance Tax collections

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				142,226					142,704
Vacancy Savings				(34,978)					(35,001)
Inflation/Deflation				1,673					1,938
Fixed Costs				(11,927)					(17,340)
Total Statewide Present Law Adjustments				\$96,994					\$92,301
DP 5 - Treasure State Endowment 1.00 FTE HB 2									
1.00	0	54,867	0	54,867	1.00	0	54,734	0	54,734
DP 6 - Coal Impact Funding HB 2									
0.00	0	(161,327)	0	(161,327)	0.00	0	(1,156,823)	0	(1,156,823)
DP 13 - Administrative Cost Adjustments HB 2									
0.00	(6,028)	142,161	31,090	167,223	0.00	(5,739)	142,935	31,536	168,732
Total Other Present Law Adjustments									
1.00	(\$6,028)	\$35,701	\$31,090	\$60,763	1.00	(\$5,739)	(\$959,154)	\$31,536	(\$933,357)
Grand Total All Present Law Adjustments				\$157,757					(\$841,056)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 5 - Treasure State Endowment 1.00 FTE HB 2 - The executive requests additional authority from the Treasure State Endowment state special revenue fund for a 1.00 FTE civil engineer specialist, grade 16. This new position will accommodate increased work load due to an increasing number of TSEP projects and new duties related to funds appropriated for preliminary engineering studies and emergency projects, which will require higher technical

qualifications

LFD COMMENT

Because TSEP administration is funded from the same source as TSEP grants, increasing the administration costs would result in a dollar for dollar reduction in the amount available for grants.

DP 6 - Coal Impact Funding HB 2 - The executive proposes to reduce Coal Board grant funding by 50.0 percent for the 2005 biennium. This decision package is intended to implement executive-proposed legislation that changes the percentage of coal severance taxes allocated to the coal severance tax shared state special revenue account from 7.75 percent to 4.18 percent for the 2005 biennium only. The executive proposes a \$1.1 million biennial appropriation in fiscal 2004, and a \$118,000 appropriation in fiscal 2005. For further information on this issue, please see the Program Issues narrative at the end of this section.

LFD ISSUE

A biennial appropriation from the shared account may not provide the flexibility desired by the Coal Board. As stated above, statute provides for a transfer of any unreserved fund balance out of the shared account and into the general fund at the end of each fiscal year. Therefore, the Coal Board biennial appropriation will compete with all other entities during both years of the biennium. Carrying over the primary balance of the appropriation will not guarantee the Coal Board the ability to spend all of that authority.

LFD ISSUE

The executive proposal is based upon the executive projections for total coal severance tax collections. Using the official revenue estimates accepted by the Revenue and Transportation Committee, appropriations exceed revenues by approximately \$84,000 during the 2005 biennium. Therefore, the appropriations should be reduced by a like amount.

DP 13 - Administrative Cost Adjustments HB 2 - The executive requests additional state and federal special revenue authority, in addition to decreased general fund authority, for the following adjustments:

- Increased rent due to moving into the Old Federal Building (\$73,000 each year)
- Carry forward of base year expenditures for per diem and overtime (zero-based) (\$4,000 each year)
- Increased expenditures for agency indirect charges (\$13,000 each year)
- Removal of one-time moving costs from the base (\$18,000 reduction each year)
- General reductions to meet the agency general fund target (\$3,500 reduction each year)

Additionally, the executive requests a restricted \$100,000 appropriation from the Hard Rock Mining Impact Reserve state special revenue account. The reserve had no expenditures during the base year; therefore the entire amount is being requested in this adjustment.

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

Program Issues

Coal Severance Tax Shared State Special Revenue Account

The Coal Board is funded from the coal severance tax shared state special revenue account. This account receives its revenues from a portion of coal severance tax collections. At the end of each fiscal year, any unreserved funds are deposited into the general fund. Through fiscal 2002, the shared account received 8.36 percent of all Coal Severance Tax collections. During the August 2002 special session, the legislature decreased that to 6.01 percent, to increase the amount of coal severance tax collections going directly to the general fund, and to 7.75 percent for fiscal 2004 and beyond. The reduction to 7.75 percent was made to account for a change in funding of the County Land Planning function, which was

previously funded from the shared account through fiscal 2001. For the 2005 biennium, the executive proposes to reduce the percentage to 4.18, which is half of the original 8.36 percent allocation.

The shared account funds the Coal Board Local Impact Grants, pass-through funding for Conservation Districts, a portion of the Growth Through Agriculture program, and State Library Services through the State Library Commission:

- o Conservation Districts throughout Montana use coal tax funds for basic operations and programs administered at the local level
- o Five library federations exist throughout the state serving public libraries and public school libraries in their region. Federations use state funds for training, grants, and materials in their regions
- o The Growth Through Agriculture program uses funds from the shared account to provide staff assistance, statewide marketing and development, grants, and loans in support of the responsibilities outlined in Title 90, Chapter 9, MCA
- o The Coal Board funds successful applications for grants awarded pursuant to 90-6-207, MCA, which provides guidelines for identifying those counties, communities, school districts, or other governmental entities that qualify as 'impacted' through the development, usage, or decline of coal production

Figure 7 shows a comparison of appropriations (fiscal 2003 reduced further for Governor's mandated reductions) for fiscal 2002 through fiscal 2005 to demonstrate the change in funding available to the entities funded from the shared account. It should be noted that although the fiscal 2004 appropriation for the Coal Board grant is close to that in fiscal 2002, it is actually a proposed biennial appropriation, and will only be available as revenues are collected into the shared account.

Figure 7 Allocation of Coal Severance Tax Shared State Special Revenue Account By Program Fiscal 2002-2005				
Program	Fiscal Year			
	2002	2003	2004	2005
Percentage Allocation	8.36%	6.01%	4.18%	4.18%
Local Impact (Coal Board) - Dept of Comm.	\$1,201,084	\$883,136	\$1,114,261	\$118,157
Conservation Districts - DNRC	757,435	607,435	333,170	324,443
MT Growth Through Ag - Dept of Ag.	386,476	193,473	196,405	191,261
<u>State Library Services - State Lib. Comm.</u>	<u>284,227</u>	<u>214,227</u>	<u>144,038</u>	<u>140,265</u>
Total	<u>\$2,629,222</u>	<u>\$1,898,271</u>	<u>\$1,787,874</u>	<u>\$774,126</u>

Coal Board Local Impact Grants

As stated above, the Coal Board awards grants to entities identified as impacted by coal production for projects related to that impact. Recent awards have at least partially funded such projects as: airport construction, water and sewer engineering, irrigation projects, sewer maintenance truck, road construction, school grounds maintenance, and facility construction.

The 2001 legislature appropriated approximately \$1.3 million for fiscal 2003 Coal Board grants. Governor Martz' spending reductions combined with reductions during the August 2002 special session left approximately \$880,000 for the Coal Board to award in grants. The fiscal 2003 reduction in grants pushed some projects back to compete in fiscal 2004. Similarly, the reductions in the 2005 biennium will further decrease the ability of the board to fund requested projects. To accommodate this reduction, the department states that priority will be given to projects considered as relating to public health and safety, which would leave little funding for other projects. Additionally, this reduction would occur during a time when the coal board is anticipating increased demand for local impact grants due to two coal mining/energy generation development projects (currently in the permitting stage) and three coal and/or energy generation projects currently in the planning stage.

Other Sources of Assistance to Communities

Some of the applications currently awaiting review and/or approval by the Coal Board would potentially qualify for funding from the following programs:

CDBG - CDBG grants can be awarded in the areas of housing, public facilities, planning grants for housing or public facilities, and economic development. Under federal law, eligible applicants are limited to general-purpose local government, i.e. counties, incorporated cities and towns, and consolidated city-county governments. The communities of Billings, Great Falls, and Missoula are ineligible to apply to the State CDBG Program because they receive CDBG funds from a separate HUD allocation for communities with populations over 50,000. Montana's Indian tribes also receive CDBG funds from a separate HUD CDBG Program and are therefore not eligible to apply to the state program.

TSEP - The TSEP program was created to help local governments fund infrastructure projects, defined in statute as drinking water systems, wastewater treatment, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, including site acquisition, preparation, or monitoring; and bridges. Under statute, qualified projects must also:

- create jobs for Montana residents
- promote economic growth in Montana by helping to finance the necessary infrastructure
- encourage local public facility improvements
- create a partnership between the state and local governments to make necessary public projects affordable
- support long-term, stable economic growth in Montana
- protect future generations from undue fiscal burdens caused by financing necessary public works
- coordinate and improve infrastructure financing by federal, state, local government, and private sources
- enhance the quality of life and protect the health, safety, and welfare of Montana citizens

Water Pollution Control State Revolving Fund (SRF) Loan Program - From the DNRC website:

"The Water Pollution Control SRF was created by the 1989 legislature. It is designed to combine federal grant money with state matching money to create a low-interest loan program that funds community wastewater treatment projects. DNRC and DEQ co-administer the SRF program. The U.S. Environmental Protection Agency (EPA) makes a grant of federal funds to the state. The state must match 20.0 percent of that grant. The state's share is derived from the sale of state general obligation bonds. Loans are made by DNRC to public entities at an interest rate of 4.0 percent for up to 20 years."

Projects competing for Coal Board grant funding that also qualify for one or more of the programs above are not included in the discussion and overall prioritization of projects for those funds. Therefore, it is not known how these projects rank when compared with projects funded by the other programs. If these projects are funded by the Coal Board, as opposed to the other programs, they have subsequently reduced the amount of funding potentially available to those projects that do not qualify for other state programs.

Issues

- The executive proposes to reduce by 50.0 percent the coal severance tax shared account funding allocated to four entities. This reduction can be expected to significantly alter the functions funded with these monies
- Coal Board grant reductions may potentially impact the process during a time of increased need for the grants
- Local impact grant requests that qualify for other state or federal grant programs, are not included in the prioritization process for those programs, and therefore the overall priority compared to other programs is not known
- Local impact grants to projects that qualify for other programs reduce the funding available to local impact requests that do not qualify for other programs

Options

- Accept the executive proposals to reduce the percentage of coal severance taxes allocated to the shared account and reduce the appropriations from the account
- Do not accept the executive proposal and allocate the shared account funds in the same percentage split as fiscal 2002. This option would decrease projected general fund revenues by \$2.1 million over the biennium
- Amend statute to adjust individual appropriations to the four entities at legislatively-determined levels
- Additionally, and regardless of funding levels, if the legislature wishes to consolidate the prioritization of infrastructure projects, it could amend statute to allow the Coal Board to only consider projects not qualifying for other state programs

Proprietary Rates

Program Description

The Montana Facility Finance Authority (MFFA) was created by the 1983 legislature to assist facilities in containing future health care costs. This is to be accomplished by offering debt financing or refinancing for buildings and capital equipment at low-cost, tax-exempt interest rates. The MFFA is governed by a seven-member quasi-judicial board appointed by the Governor, with the advice and consent of the Senate. The MFFA issues revenue bonds, or notes, to finance or refinance projects involving construction, renovation, or equipment purchases for eligible public or private non-profit facilities. Eligible facilities include hospitals, clinics, nursing homes, centers for the developmentally disabled, pre-release centers, or other facilities as defined in 50-5-101, MCA.

The MFFA is funded entirely by proprietary funds from revenues collected from interest, fees, and charges paid by participating institutions in connection with making and servicing lease agreements, loan agreements, and other indebtedness. Operating costs are reimbursed with these fees.

Revenues and Expenses

The MFFA collects interest, fees, and charges paid by participating institutions. By statute, interest, fees, and charges are limited to the amounts required to pay the costs of the MFFA, including operating and administrative expenses, with reasonable allowances for losses, bond financing costs, and making loans.

A 60-day working capital calculation is not reasonably applicable to the MFFA because national bond rating agencies, national bond insurers, and institutional investors expect the MFFA to reserve two years operating capital in order to ensure that it can financially operate between legislative sessions.

MFFA revenues provide funding for 2.0 FTE.

Rate Explanation

Annual planning service fees are paid on the first and succeeding anniversary dates of the sale and issuance of a bond, note, or loan. The annual planning service fee cannot exceed 0.15 percent of the outstanding principal amount of the bonds, notes, or loans. The authority has gradually reduced its application and annual administrative fee assessments contingent upon its business volume.

Significant Present Law Adjustments

DP 16 - Administrative Costs Adjustments - The executive proposes several adjustments for administrative costs, including per diem, overtime, rent, agency indirect charges, and removal of one-time moving expenses from the base.

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06012	Facilities Finance Loan	65010	Dept. of Commerce	MT Facilities Finance Authority
	Program			
06015	Facilities Finance Authority	65010	Dept. of Commerce	MT Facilities Finance Authority

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Fee Revenues	-	-	-	258,000	258,000	258,000
Net Fee Revenue	282,493	265,863	256,489	258,000	258,000	258,000
Investment Earnings	95,806	138,445	69,080	81,150	81,150	81,150
Securities Lending Income	40,210	13,288	824	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	131	-	-	-	-	-
Total Operating Revenues	418,640	417,596	326,393	339,150	339,150	339,150
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	418,640	417,596	326,393	339,150	339,150	339,150
Operating Expenses:						
Personal Services	110,521	109,930	122,677	127,769	120,168	119,887
Other Operating Expenses	122,080	90,537	98,277	140,012	141,386	133,371
Miscellaneous, operating	19,425	18,497	30,504	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	252,026	218,964	251,458	267,781	261,554	253,258
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	252,026	218,964	251,458	267,781	261,554	253,258
Operating Income (Loss)	166,614	198,632	74,935	71,369	77,596	85,892
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	200	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	200	-	-	-
Income (Loss) Before Operating Transfers	166,614	198,632	75,135	71,369	77,596	85,892
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	1,773,580	1,940,194	2,138,826	2,213,961	2,285,330	2,362,926
Net Income (Loss)	166,614	198,632	75,135	71,369	77,596	85,892
Retained Earnings/Fund Balances - June 30	1,940,194	2,138,826	2,213,961	2,285,330	2,362,926	2,448,818
60 days of expenses (Total Operating Expenses divided by 6)	42,004	36,494	41,910	44,630	43,592	42,210

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	24.00	0.00	(18.50)	5.50	0.00	(18.50)	5.50	5.50
Personal Services	928,511	70,360	(753,840)	245,031	71,464	(754,229)	245,746	490,777
Operating Expenses	694,747	197,930	(724,018)	168,659	174,564	(702,943)	166,368	335,027
Equipment	0	15,000	25,000	40,000	0	0	0	40,000
Grants	30,108,091	16,996,755	(38,234,502)	8,870,344	15,322,044	(40,248,513)	5,181,622	14,051,966
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$31,731,349	\$17,280,045	(\$39,687,360)	\$9,324,034	\$15,568,072	(\$41,705,685)	\$5,593,736	\$14,917,770
State/Other Special	0	20,000	0	20,000	20,000	0	20,000	40,000
Federal Special	31,731,349	17,260,045	(39,687,360)	9,304,034	15,548,072	(41,705,685)	5,573,736	14,877,770
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$31,731,349	\$17,280,045	(\$39,687,360)	\$9,324,034	\$15,568,072	(\$41,705,685)	\$5,593,736	\$14,917,770

Program Description

The Housing Division, established on July 1, 1995, consolidates housing programs within the Department of Commerce into one division. The division includes the Housing and Urban Development (HUD) HOME Investment Partnerships Program, the HUD Tenant Based and Project Based Section 8 Housing Programs, and the Board of Housing and its programs.

- o The HOME program provides grant funds to eligible local governments and Community Housing Development organizations, allowing them to provide assistance in financing new construction or rehabilitation of individual homes or rental units, tenant-based rental assistance, and other eligible activities
- o The Section 8 Housing program provides rental assistance through HUD Section 8 authority, on behalf of low-income families and the elderly
- o The Board of Housing is a seven-member, quasi-judicial board appointed by the Governor and is administratively attached to the Department of Commerce. The board administers the Low-Income Housing Tax Credit, Multi-Family Loan, Reverse Annuity Mortgage, and Single Family programs

Program Narrative

Housing Division Major Budget Highlights	
o	The executive proposes to convert Section 8 program to a proprietary fund, moving it out of HB 2
Major LFD Issues	
o	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Housing Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02541 Affordable House Revolv Loan	\$ -	-	\$ 20,000	0.2%	\$ 20,000	0.4%
02682 Revolving Loan Fund Tanf	-	-	-	-	-	-
03053 Section 8 Hud Assistance	12,620,604	39.8%	-	-	-	-
03054 Hud Section 8 Housing Program	15,784,603	49.7%	-	-	-	-
03300 Home Grants	3,326,142	10.5%	9,304,034	99.8%	5,573,736	99.6%
06030 Boh Financial Program Fund	-	-	-	-	-	-
06031 Housing Trust Fund	-	-	-	-	-	-
06074 Project Based Section 8 Housing	-	-	-	-	-	-
06075 Tennant Based Section 8 Housing	-	-	-	-	-	-
Grand Total	<u>\$31,731,349</u>	<u>100.0%</u>	<u>\$ 9,324,034</u>	<u>100.0%</u>	<u>\$ 5,593,736</u>	<u>100.0%</u>

The HOME Program is funded by an annual categorical federal grant from HUD. Grant funds are distributed using a competitive process to successful local governments and Community Housing Development Organizations with an allowed amount being held back at the state level to administer the program. Section 8 Housing Programs are funded under performance-based annual contribution contracts with HUD. The Board of Housing is funded by proprietary (enterprise type) funds derived from an administrative charge applied to mortgages financed and applications received, and no direct appropriations are provided in HB 2.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					106,226					107,308
Vacancy Savings					(41,373)					(41,351)
Inflation/Deflation					3,263					3,777
Fixed Costs					32,638					6,754
Total Statewide Present Law Adjustments					\$100,754	\$76,488				
DP 7 - Adjust Federal Grants HB 2	0.00	0	0	17,006,091	17,006,091	0.00	0	0	15,331,380	15,331,380
DP 9 - Lead-based Paint Inspections HB 2	0.00	0	0	130,000	130,000	0.00	0	0	130,000	130,000
DP 10 - Replace Database Server - OTO	0.00	0	0	15,000	15,000	0.00	0	0	0	0
DP 14 - Administrative Cost Adjustments HB 2	0.00	0	0	8,200	8,200	0.00	0	0	10,204	10,204
DP 742 - Board of Housing - OTO	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000
Total Other Present Law Adjustments										
	0.00	\$0	\$20,000	\$17,159,291	\$17,179,291	0.00	\$0	\$20,000	\$15,471,584	\$15,491,584
Grand Total All Present Law Adjustments					\$17,280,045	\$15,568,072				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7 - Adjust Federal Grants HB 2 - The executive requests additional federal special revenue authority to bring grants up to the level of the federal budget allocation.

DP 9 - Lead-based Paint Inspections HB 2 - The executive requests additional federal special revenue authority to adjust the base to include costs of HUD required lead-based paint clearance testing in Section 8 Housing programs.

DP 10 - Replace Database Server - OTO - The executive requests additional federal special revenue authority to replace the division's database server in fiscal 2004, due to age and additional system requirements coming in fiscal 2004.

DP 14 - Administrative Cost Adjustments HB 2 - The executive requests additional federal special revenue authority for the following adjustments:

- o Increased rent due to moving into the Old Federal Building (\$32,000 each year)
- o Carry forward of base year expenditures for overtime (zero-based) (\$6,000 each year)
- o Increased expenditures for agency indirect charges (\$13,000 each year)
- o Increased data network charges due to increase network connections (\$2,000 each year)
- o Removal of one-time moving costs from the base (\$42,000 reduction each year)

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

DP 742 - Board of Housing - OTO - The executive requests \$20,000 in authority from the Affordable Housing Revolving Loan state special revenue fund. House Bill 273 passed by the 2001 legislature transferred \$3,415,928 from the Temporary Assistance to Needy Families (TANF) block grant to the affordable housing revolving loan account. Senate Bill 6 passed during the 2002 special session reduced the amount to \$700,000. The Housing Division is allowed a 7.0 percent administrative cost reimbursement for each loan made from the TANF funds. This request will allow the board to recover those costs. No loans were made during the base year, and therefore, this request equals the total request for costs.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 2 - Section 8 Housing Funding Shift										
74	(19.50)	0	0	(39,767,604)	(39,767,604)	(19.50)	0	0	(41,745,884)	(41,745,884)
DP 4 - Restore 1.00 FTE Cobb Amendment HB 2										
74	1.00	0	0	35,244	35,244	1.00	0	0	35,199	35,199
DP 8 - HOME Project Administration Software HB 2										
74	0.00	0	0	45,000	45,000	0.00	0	0	5,000	5,000
Total	(18.50)	\$0	\$0	(\$39,687,360)	(\$39,687,360)	(18.50)	\$0	\$0	(\$41,705,685)	(\$41,705,685)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 2 - Section 8 Housing Funding Shift - The executive proposes to remove the Section 8 Housing program from House Bill 2 appropriations and account for it as an enterprise fund. This proposal is made to:

- o Comply with Generally Accepted Accounting Principals (GAAP)
- o Conform to HUD recognition of the program
- o Structure the program similar to Section 8 programs in other states

This request will result in an overall reduction in HB 2 of approximately \$40 million in fiscal 2004 and \$42 million in fiscal 2005. There will be no requirement for legislative approval of rates because the program will be categorized as an enterprise fund.

**LFD
COMMENT**

Statute requires that the executive budget include an analysis of all enterprise funds in each budget submission. Consequently, if this proposal is approved the department will still be required to present financial and programmatic information to the legislature.

DP 4 - Restore 1.00 FTE Cobb Amendment HB 2 - The executive requests approximately \$35,000 in federal special revenue authority in each year of the biennium to restore 1.0 FTE eliminated by boilerplate language in HB 2. This language eliminated 1.0 FTE only, leaving the funding, but directed that the FTE was not to be funded in the executive present law budget. Therefore, this FTE would be restored in this decision package. This FTE would establish as permanent a currently modified position supporting the Project-Based Section 8 Housing program. This position had been intentionally left vacant until workload dictated filling, and has been filled since January 2002.

DP 8 - HOME Project Administration Software HB 2 - The executive requests additional federal authority to replace the current manual program and administration system in the HOME program with an automated software system. This is in response to a recent Legislative Audit Division review of the HOME program (audit 01-13), which recommended improvements to tracking and monitoring processes. The executive requests that \$40,000 in fiscal 2004 be designated one-time-only.

Proprietary Rates

Program Description

The Board of Housing is a seven-member quasi-judicial board appointed by the Governor and is administratively attached to the Department of Commerce. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing, and evaluates Board of Housing programs. These programs include the Single Family, Recycled Single Family, Multifamily Loan, Low Income Housing Tax Credit, and the Reverse Annuity Mortgage (RAM) programs. Additionally, the board administers the Affordable Housing Revolving Loan Fund.

The Board of Housing is funded by proprietary funds derived from an administrative charge applied to projects and mortgages financed. Under the Montana Housing Act of 1975, the board does not receive any general fund, and is completely self-supporting.

Revenues and Expenses

- The Single Family Program earns the bulk of its income from the spread between the interest yield on the Single Family Mortgage loans and the yield on the bonds (1.5 percent on pre-1980 programs and 1.125 percent on post-1980 programs). The board also charges a reservation fee of 0.5 percent of the loan amount reserved. Extension fees of 0.25 percent of the loan amount and late fees of 0.5 percent of the loan amount are also occasionally charged
- The Multifamily Program can earn a 1.5 percent spread between the mortgage yield and the bond yield. Under the Multifamily Program, the board can also charge a reservation fee on new loans of up to 1.0 percent of the principal balance
- The board charges 4.5 percent of the amount of tax credit reserved for Low Income Housing Tax Credits, and also charges \$20.00 per unit for compliance fees. Tax credit fees are charged to cover the operating expenses of the program
- The board charges an interest rate from 2.0 to 6.0 percent on Housing Revolving Loan Account loans
- The Reverse Annuity Mortgage program allows elderly homeowners to receive monthly payments for 10 years to assist them with their living expenses. The loans accrue interest at 5.0 percent

In fiscal 2002, the board earned approximately \$10,801,278 on its investments. Additionally, the board's mortgage income during the last five years has continued to increase, and the board has continued to issue bonds each year to originate new mortgages. During fiscal 2000, 2001 and 2002, the board issued bonds in the amounts of \$88 million, \$143 million, and \$39 million, respectively. The board anticipates that mortgage revenue will continue to increase during the next biennium as the board continues to originate loans with prepayments, excess revenues and bond proceeds.

Operations for the next biennium are anticipated to be approximately \$5.2 million for fiscal 2004 and \$5.6 million for fiscal 2005. Operating expenses include servicer fees, board operating expenses, and personal services. Board functions include purchasing mortgage loans, receiving repayments and prepayments, investing funds, and issuing and redeeming

bonds. The board operates with a staff of 19.00 FTE.

Significant Present Law Adjustments

DP 17 - Administrative Costs Adjustments - The executive adjusts for administrative costs, including per diem, overtime, trustee fees, legal fees, foreclosure fees, added network connections, rent, software, equipment, agency indirect costs, and removal of one-time moving costs from the base.

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

New Proposals

See DP 02 discussion under "New Proposals" in program narrative section.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name		
06030, 06031	Housing Authority	65010	Dept. of Commerce	Board of Housing		
	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	264,957	212,535	234,504	235,000	235,000	235,000
Investment Earnings	9,697,183	13,547,200	10,823,572	11,000,000	11,000,000	11,000,000
Securities Lending Income	3,948	790	1,189	1,200	1,200	1,200
Premiums	-	-	-	-	-	-
Other Operating Revenues	34,906,637	39,701,444	41,606,787	43,000,000	45,000,000	47,000,000
Total Operating Revenues	44,872,725	53,461,969	52,666,052	54,236,200	56,236,200	58,236,200
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	44,872,725	53,461,969	52,666,052	54,236,200	56,236,200	58,236,200
Operating Expenses:						
Personal Services	568,577	547,146	689,153	724,449	814,249	815,594
Other Operating Expenses	39,303,730	44,386,527	44,962,942	46,825,000	47,790,000	50,000,000
Miscellaneous, operating	158,003	207,491	298,884	1,896,234	1,923,070	1,995,274
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	40,030,310	45,141,164	45,950,979	49,445,683	50,527,319	52,810,868
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	40,030,310	45,141,164	45,950,979	49,445,683	50,527,319	52,810,868
Operating Income (Loss)	4,842,415	8,320,805	6,715,073	4,790,517	5,708,881	5,425,332
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	240,867	240,140	240,000	240,000	240,000
Net Nonoperating Revenues (Expenses)	-	240,867	240,140	240,000	240,000	240,000
Income (Loss) Before Operating Transfers	4,842,415	8,561,672	6,955,213	5,030,517	5,948,881	5,665,332
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	99,646,414	104,488,829	113,050,501	120,005,714	125,036,231	130,985,112
Net Income (Loss)	4,842,415	8,561,672	6,955,213	5,030,517	5,948,881	5,665,332
Retained Earnings/Fund Balances - June 30	104,488,829	113,050,501	120,005,714	125,036,231	130,985,112	136,650,444
60 days of expenses (Total Operating Expenses divided by 6)	6,671,718	7,523,527	7,658,497	8,240,947	8,421,220	8,801,811

Proprietary Rates

Program Description

The Board of Investments staff manages the Unified Investment Program for public funds, established under Article VIII, Section 13 of the Montana Constitution. Six investment pools and several individual portfolios are managed. The six investment pools include the Retirement Funds Bond, Trust Funds Bond, Short Term Investment, Montana Domestic Stock, Montana International Equity, and the Montana Private Equity pools.

Revenues and Expenses

The revenue objective of the Investment Program is to fairly assess the costs of operations to each account the board invests while maintaining a reasonable and prudent 60-day working capital reserve.

Nearly all Bond Program revenues are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270-day fund balance is required to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the board's contract with the Montana Facility Finance Authority.

The Board of Investments does not receive any direct appropriations. Funding for accounting entity 06527 is generated entirely from charges to each account that the Board invests and is used to finance the investment program. Funding for accounting entity 06014 is the revenue generated from the difference between the interest earned from loans to borrowers and interest paid to bond holders, and monthly contract revenues received from the Montana Facility Finance Authority. Non-budgeted revenues are used to finance statutorily appropriated debt service expenditures.

Rate Explanation

The Board of Investments charges its costs to the entities that use its services. Typically, this has been done by projecting a maximum level of expenditures and setting the fee at that level. This methodology is continued in the 2005 biennium to provide a comparison with historical financial activity.

There has been no significant change in the services provided by the Board of Investments from those provided in the last biennium, although the investment portfolio continues to grow. There are currently 33.00 FTE in the program.

At the proposed level of expenditures (\$4.0 million in fiscal 2004, \$4.2 million in fiscal 2005), the Board projects a fiscal 2005 ending unreserved fund balance of \$331,139, or approximately a 42-day working capital reserve for accounting entity 06527.

Significant Present Law Adjustments

DP 18 - Administrative Costs Adjustments - The executive proposes adjustments for administrative costs, including per diem, overtime, rent, and agency indirect charges.

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06527	Investment Division	65010	Dept. of Commerce	Board of Investments

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Administrative Fees	-	-	-	2,805,200	2,915,000	2,920,000
Net Fee Revenue	2,191,032	2,049,130	2,901,292	2,805,200	2,915,000	2,920,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	1,635	-	-	-	-	-
Total Operating Revenues	2,192,667	2,049,130	2,901,292	2,805,200	2,915,000	2,920,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	2,192,667	2,049,130	2,901,292	2,805,200	2,915,000	2,920,000
Operating Expenses:						
Personal Services	1,514,841	1,575,243	1,842,921	1,858,805	2,040,884	2,048,826
Other Operating Expenses	591,855	468,718	537,242	946,395	825,748	758,670
Miscellaneous, operating	174,771	179,786	303,402	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	2,281,467	2,223,747	2,683,565	2,805,200	2,866,632	2,807,496
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	2,281,467	2,223,747	2,683,565	2,805,200	2,866,632	2,807,496
Operating Income (Loss)	(88,800)	(174,617)	217,727	-	48,368	112,504
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(5,484)	355	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(5,484)	355	-	-	-
Income (Loss) Before Operating Transfers	(88,800)	(180,101)	218,082	-	48,368	112,504
Contributed Capital	18,298	18,298	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	202,788	113,988	(47,815)	170,267	170,267	218,635
Net Income (Loss)	(70,502)	(161,803)	218,082	-	48,368	112,504
Retained Earnings/Fund Balances - June 30	<u>132,286</u>	<u>(47,815)</u>	<u>170,267</u>	<u>170,267</u>	<u>218,635</u>	<u>331,139</u>
60 days of expenses (Total Operating Expenses divided by 6)	380,245	370,625	447,261	467,533	477,772	467,916

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06014	Economic Development Bonds	65010	Dept. of Commerce	Board of Investments

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Fee Revenues	-	-	-	13,000	13,000	13,000
Net Fee Revenue	6,063	9,940	12,992	13,000	13,000	13,000
Investment Earnings	459,227	1,120,444	575,823	575,000	575,000	575,000
Securities Lending Income	286	86	135	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	3,762,798	3,682,543	2,892,572	3,300,000	3,500,000	3,700,000
Total Operating Revenues	4,228,374	4,813,013	3,481,522	3,888,000	4,088,000	4,288,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	4,228,374	4,813,013	3,481,522	3,888,000	4,088,000	4,288,000
Operating Expenses:						
Personal Services	148,020	217,162	172,186	165,284	127,935	128,132
Other Operating Expenses	3,342,051	3,993,922	3,046,013	3,460,000	3,660,000	3,860,000
Miscellaneous, operating	19,258	129,039	33,038	176,091	252,065	251,868
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	3,509,329	4,340,123	3,251,237	3,801,375	4,040,000	4,240,000
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	3,509,329	4,340,123	3,251,237	3,801,375	4,040,000	4,240,000
Operating Income (Loss)	719,045	472,890	230,285	86,625	48,000	48,000
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	719,045	472,890	230,285	86,625	48,000	48,000
Contributed Capital	23,478	23,478	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	3,756,177	4,017,102	4,513,470	4,743,755	4,830,380	4,878,380
Net Income (Loss)	742,523	496,368	230,285	86,625	48,000	48,000
Retained Earnings/Fund Balances - June 30	4,498,700	4,513,470	4,743,755	4,830,380	4,878,380	4,926,380
60 days of expenses (Total Operating Expenses divided by 6)	584,888	723,354	541,873	633,563	673,333	706,667

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Personal Services	0	0	0	0	0	0	0	0
Operating Expenses	2,041	5	0	2,046	5	0	2,046	4,092
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$2,041	\$5	\$0	\$2,046	\$5	\$0	\$2,046	\$4,092
General Fund	0	0	0	0	0	0	0	0
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	2,041	5	0	2,046	5	0	2,046	4,092
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$2,041	\$5	\$0	\$2,046	\$5	\$0	\$2,046	\$4,092

Program Description

The Director's Office/Management Services Division consists of two programs.

- The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively-attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana
- The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting and fiscal, budgeting and information systems, contracting and purchasing, human resources, payroll, and training

Funding

The division is funded by an internal service proprietary fund from indirect costs charged to all agency programs.

Program Funding Table Director/Management Services						
	Base	% of Base	Budget	% of Budget	Budget	% of Budget
<u>Program Funding</u>	<u>Fiscal 2002</u>	<u>Fiscal 2002</u>	<u>Fiscal 2004</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2005</u>
03359 School To Work	\$ 2,041	100.0%	\$ 2,046	100.0%	\$ 2,046	100.0%
Grand Total	\$ 2,041	100.0%	\$ 2,046	100.0%	\$ 2,046	100.0%

**LFD
ISSUE**

Per the department, the \$2,046 in federal School-to-Work funding will not be used or needed during the 2005 biennium. Therefore, the legislature should remove this authority from the division budget.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				0					0
Vacancy Savings				0					0
Inflation/Deflation				5					5
Total Statewide Present Law Adjustments				\$5					\$5
Grand Total All Present Law Adjustments				\$5					\$5

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Proprietary Rates**Revenues and Expenses**

The Director's Office/Management Services Division is funded by an internal service fund with revenues from charges allocated to programs supported by the indirect cost plan. Indirect costs are allocated to supported programs based upon federally- and legislatively-approved indirect cost rates applied against the actual personal services expenditures of the supported programs.

The revenue objective of division management is to maintain the lowest possible indirect-cost charge to supported divisions, bureaus, and programs while maintaining a nominal working capital reserve. The department has historically used the same methodology in calculating indirect rates due to federal requirements to use those calculations when charging indirect costs to federally-funded programs.

While there have been no significant changes in the services provided to supported programs, the division lost a significant portion of its workload under Senate Bill 445, which was passed by the 2001 legislature. SB 445 reorganized the Department of Commerce and transferred several of its programs to other agencies. FTE within the division decreased from 24.5 FTE to 17.0 FTE. The decreased personal services charges with which to calculate the indirect cost percentage led to a higher proposed rate for the 2003 biennium as compared to the rate pre-SB 445.

Rate Explanation

The executive requests an indirect cost rate of 15.0 percent in each year of the biennium. The indirect cost rate is calculated by dividing the projected annual expenditures of the Director's Office/Management Services Division, plus a nominal working capital reserve, by the projected actual personal services amounts estimated to be incurred by supported programs.

Indirect costs are charged to all supported programs on a monthly basis. Since indirect cost collections lag by at least one month the division maintains working capital reserve adequate to meet operating costs. At the proposed 15.0 percent rate, the department projects a fiscal 2005 ending unreserved fund balance of \$175,525, or approximately a 57-day working capital reserve.

Significant Present Law Adjustments

DP 19 - Administrative Costs Adjustments - The executive proposes adjustments for administrative costs, including overtime, rent, and the removal of one-time moving expenses from the base.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06542	Central Services	65010	Dept. of Commerce	Director/Management Services Division

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Administrative Fees	1,293,827	1,329,085	1,069,540	1,072,100	1,074,200	1,075,700
Net Fee Revenue	1,293,827	1,329,085	1,069,540	1,072,100	1,074,200	1,075,700
Investment Earnings						
Securities Lending Income						
Premiums						
Other Operating Revenues						
Total Operating Revenues	1,293,827	1,329,085	1,069,540	1,072,100	1,074,200	1,075,700
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	1,293,827	1,329,085	1,069,540	1,072,100	1,074,200	1,075,700
Operating Expenses:						
Personal Services	1,043,009	1,090,782	843,578	900,000	901,894	901,595
Other Operating Expenses	-	-	-	-	-	-
Miscellaneous, operating	155,848	199,798	221,319	200,000	205,728	207,475
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	1,198,857	1,290,580	1,064,897	1,100,000	1,107,622	1,109,070
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	1,198,857	1,290,580	1,064,897	1,100,000	1,107,622	1,109,070
Operating Income (Loss)	94,970	38,505	4,643	(27,900)	(33,422)	(33,370)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	94,970	38,505	4,643	(27,900)	(33,422)	(33,370)
Contributed Capital	21,188	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	120,823	236,981	275,486	280,129	252,229	218,807
Net Income (Loss)	116,158	38,505	4,643	(27,900)	(33,422)	(33,370)
Retained Earnings/Fund Balances - June 30	236,981	275,486	280,129	252,229	218,807	185,437
60 days of expenses (Total Operating Expenses divided by 6)	199,810	215,097	177,483	183,333	184,604	184,845

CORRECTIONS AND PUBLIC SAFETY

Section D

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE COMMITTEES

-----Agencies-----

Crime Control Division
Justice
Public Service Regulation

Corrections
Labor and Industry
Military Affairs

-----Committee Members-----

House

Representative Stan Fisher (Chair)
Representative Tim Callahan
Representative Dave Lewis
Representative Carol Juneau

Senate

Senator Corey Stapleton (Vice-Chair)
Senator Trudi Schmidt
Senator Keith Bales

-----Fiscal Division Staff-----

Lorene Thorson
Todd Younkin



Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	18.00	2.00	0.00	20.00	2.00	0.00	20.00	20.00
Personal Services	764,425	142,242	0	906,667	143,017	0	907,442	1,814,109
Operating Expenses	484,281	5,881	6,250	496,412	3,146	6,250	493,677	990,089
Equipment	7,016	0	0	7,016	0	0	7,016	14,032
Grants	10,842,347	(184,415)	0	10,657,932	(184,415)	0	10,657,932	21,315,864
Total Costs	\$12,098,069	(\$36,292)	\$6,250	\$12,068,027	(\$38,252)	\$6,250	\$12,066,067	\$24,134,094
General Fund	1,794,097	(149,038)	0	1,645,059	(146,968)	0	1,647,129	3,292,188
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	10,303,972	112,746	6,250	10,422,968	108,716	6,250	10,418,938	20,841,906
Total Funds	\$12,098,069	(\$36,292)	\$6,250	\$12,068,027	(\$38,252)	\$6,250	\$12,066,067	\$24,134,094

Agency Description

The Montana Board of Crime Control (MBCC) Division was established to promote public safety by strengthening the coordination and performance of the criminal and juvenile justice systems. The Crime Control Division operates under the general supervision of the Montana Board of Crime Control. The Crime Control Division provides financial support, technical assistance, and supportive services to state and local criminal justice agencies. The Crime Control Division administers federal anti-drug and anti-crime grants, certifies peace officers and others in the criminal justice system, and provides funding for juvenile justice programs. In addition, the division collects and analyzes crime data from Montana law enforcement agencies and publishes the annual "Crime in Montana" report. The division is established in law by Section 2-15-2006, MCA.

Agency Discussion

Board of Crime Control Major Budget Highlights	
○ General fund support for grants to fund juvenile detention centers decreases \$0.4 million for the biennium ○ Total amount for pass-through grants and benefits for the 2005 biennium remain at fiscal 2002 levels	
Major LFD Issues	
○ Allow counties to plan better by specifying in statute the amount of state assistance for juvenile detention centers	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Justice System Support Service						
<u>Program Funding</u>	<u>Base</u> <u>Fiscal 2002</u>	<u>% of Base</u> <u>Fiscal 2002</u>	<u>Budget</u> <u>Fiscal 2004</u>	<u>% of Budget</u> <u>Fiscal 2004</u>	<u>Budget</u> <u>Fiscal 2005</u>	<u>% of Budget</u> <u>Fiscal 2005</u>
01100 General Fund	\$ 1,794,097	14.8%	\$ 1,645,059	13.6%	\$ 1,647,129	13.7%
02197 Restorative Justice	-	-	-	-	-	-
03008 Juvenile Justice Council	828,332	6.8%	1,000,050	8.3%	1,000,050	8.3%
03009 Juvenile Accountability Block Grant	1,957,083	16.2%	1,948,929	16.1%	1,947,025	16.1%
03192 Crime Victim Assistance	1,567,124	13.0%	1,780,000	14.7%	1,780,000	14.8%
03200 Drug Education Assistance	429,060	3.5%	471,428	3.9%	471,428	3.9%
03201 Justice System Enhancements	1,077,718	8.9%	471,206	3.9%	470,143	3.9%
03343 Criminal History Record Improv	449,930	3.7%	587,405	4.9%	587,405	4.9%
03344 Violence Against Women Act	840,403	6.9%	910,000	7.5%	910,000	7.5%
03414 Drug Enforcement Assistance	2,608,559	21.6%	2,685,950	22.3%	2,684,887	22.3%
03962 Enf. Underage Drinking Laws	360,003	3.0%	368,000	3.0%	368,000	3.0%
03963 Local Law Enforcement Assist	185,760	1.5%	200,000	1.7%	200,000	1.7%
Grand Total	<u>\$ 12,098,069</u>	<u>100.0%</u>	<u>\$ 12,068,027</u>	<u>100.0%</u>	<u>\$ 12,066,067</u>	<u>100.0%</u>

General fund is used to support: 1) the Youth Detention Services Grant Program; 2) operation of the Peace Officer Standards and Training Program; 3) the Montana Uniform Crime Reporting System; 4) general agency administration; 5) technical assistance to local law enforcement; and 6) state matching funds for the administration of the Juvenile Justice, Juvenile Accountability, and Drug Enforcement federal grant programs. General fund match required for administrative costs range from 10 percent (approximately \$9,000) for the Juvenile Accountability grants and 25 percent (approximately \$33,000) for Drug Enforcement grants, to 50 percent (\$53,160) for Juvenile Justice grants.

Federal funds are primarily used for pass-through grant programs. However, federal funding is also used for administration of the Juvenile Justice, Juvenile Accountability, Drug Education, Victim Assistance, Stop Violence Against Women, Enforce Underage Drinking Laws, Computer Crime Unit, Substance Abuse Treatment, and Drug Enforcement federal grant programs.

The following figure shows the pass-through grants and benefits for fiscal 2002 through the 2005 biennium.

Figure 1 Pass Through Grants & Benefits			
	FY 2002 Actuals	FY 2004 Requested	FY 2005 Requested
General Fund			
Juvenile Detention Centers	<u>\$1,114,942</u>	<u>\$930,527</u>	<u>\$930,527</u>
Subtotal - General Fund	1,114,942	930,527	930,527
Federal Fund			
Drug Free Schools	407,632	450,000	450,000
Juvenile Challenge Grant	87,498	90,000	90,000
Victim Assistance	1,488,919	1,700,000	1,700,000
Juvenile Delinquency Prev.	119,719	120,000	120,000
Criminal Records/Sex Offender Reg.	449,930	587,405	587,405
Violence Against Women	798,892	850,000	850,000
Drug Enforcement	2,452,165	2,500,000	2,500,000
Juvenile Justice	516,995	690,000	690,000
Substance Abuse Treatment	873,645	390,000	390,000
Law Enforcement Assistance	185,760	200,000	200,000
Juvenile Accountability Incentive	1,854,581	1,800,000	1,800,000
Computer Crime Unit	149,670	-	-
Enforce Underage Drinking Laws	<u>341,999</u>	<u>350,000</u>	<u>350,000</u>
Subtotal - Federal Fund	9,727,405	9,727,405	9,727,405
Total Grants & Benefits	<u>\$10,842,347</u>	<u>\$10,657,932</u>	<u>\$10,657,932</u>

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-05	Total Exec. Budget Fiscal 04-05
FTE	20.00	0.00	20.00	20.00	0.00	20.00	18.00	20.00
Personal Services	906,667	0	906,667	907,442	0	907,442	1,522,115	1,814,109
Operating Expenses	490,162	6,250	496,412	487,427	6,250	493,677	1,020,969	990,089
Equipment	7,016	0	7,016	7,016	0	7,016	20,516	14,032
Grants	10,657,932	0	10,657,932	10,657,932	0	10,657,932	23,865,754	21,315,864
Total Costs	\$12,061,777	\$6,250	\$12,068,027	\$12,059,817	\$6,250	\$12,066,067	\$26,429,354	\$24,134,094
General Fund	1,645,059	0	1,645,059	1,647,129	0	1,647,129	3,608,569	3,292,188
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	10,416,718	6,250	10,422,968	10,412,688	6,250	10,418,938	22,820,785	20,841,906
Total Funds	\$12,061,777	\$6,250	\$12,068,027	\$12,059,817	\$6,250	\$12,066,067	\$26,429,354	\$24,134,094

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				85,583					86,598
Vacancy Savings				0					0
Inflation/Deflation				1,867					2,742
Fixed Costs				6,686					7,076
Total Statewide Present Law Adjustments				\$94,136					\$96,416
DP 3 - Criminal Justice Analyst	1.00	0	0	46,612	1.00	0	0	44,486	44,486
DP 4 - Juvenile Justice	1.00	4,325	0	38,929	1.00	4,114	0	37,025	41,139
DP 7001 - Target reductions	0.00	(220,294)	0	(220,294)	0.00	(220,293)	0	0	(220,293)
Total Other Present Law Adjustments	2.00	(\$215,969)	\$0	\$85,541	2.00	(\$216,179)	\$0	\$81,511	(\$134,668)
Grand Total All Present Law Adjustments				(\$36,292)					(\$38,252)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3 - Criminal Justice Analyst - The executive requests increased personal services and related operating expenses to add a grade 15 criminal justice analyst. The position would be funded with federal block grant administrative funds. The primary tasks of the criminal justice analyst would be to conduct research and provide analysis of criminal and juvenile justice issues that affect the performance of the justice system and additionally this position would increase the participation of law enforcement in the National Incident Based Reporting System by enhancing law enforcement use of automated record systems and reporting capabilities.

DP 4 - Juvenile Justice - The executive requests increased personal services and related operating expenses to add a grade 14 FTE. The position would be funded 90 percent with federal block grant administrative funds and 10 percent state general fund. The Juvenile Justice Unit has experienced a 155 percent growth in federal funds since fiscal 1997. The Juvenile Justice Unit also coordinates the Youth Justice Council and provides monitoring and compliance in accordance to the Office of Juvenile Justice and Delinquency Prevention (OJJDP) Act.

LFD COMMENT

The 2001 legislature approved moving \$20,000 general fund from grants to operating expenses each year to allow the division to contract for the coordination of the general funded juvenile detention program and to bring it into compliance with the OJJDP block grant requirements. Prior to fiscal 2002, the coordination and monitoring had been paid out of federal funds. An audit by the federal grantor took exception to the use of federal funds for a general fund program created by state statute.

The position requested in this decision package is to address the need for additional services for the federal juvenile grant programs with emphasis on providing services to Native American population.

DP 7001 - Target reductions - The executive requests continuation of the reductions ordered by the Governor under 17-7-140, MCA, and the August 2002 Special Session reductions.

**LFD
COMMENT**

The reductions result in a decrease in general fund personal services and operating expenses of approximately 5.3 percent and a reduction in grants awarded to juvenile detention regions of approximately 16.5 percent.

To provide background on why the state assists local governments in the cost of juvenile detention centers, it is necessary to briefly review the federal Juvenile Justice and Delinquency Prevention Act (JJDPA) and the Montana Youth Court Act, both enacted in 1974. The JJDPA was enacted in an effort to reform the juvenile justice system and has five core requirements that include:

- o Deinstitutionalization of status offenders and non-offenders
- o Sight and sound separation from incarcerated adults
- o No juvenile shall be confined in a jail for adults
- o Address efforts to reduce the proportion of juveniles detained who are members of a minority group, if such proportion exceeds the proportion the group represents in the general population
- o Provide compliance monitoring of facilities

The Montana Youth Court Act requires that as a condition of receiving juvenile detention grant funds, counties are required to substantially comply with state law and policies concerning the detention and placement of you contained in the Montana Youth Court Act.

In an effort to assist cities and counties in their ability to meet the requirements of both acts, the state originally provided a statutory appropriation of 9.1 percent of the net proceeds from the lottery, not to exceed \$1.0 million each year, to support youth detention facilities. The 1995 legislature passed SB 83, which eliminated the statutory appropriation. General fund has been appropriated in HB 2 since that time.

The state awards general fund grants to the five juvenile detention regions across the state in order to assist local governments in paying for the detention of pre-adjudicated youth. The state's contribution for juvenile detention costs has dropped from 55.8 percent in fiscal 1994 to 25.3 percent in fiscal 2003. Statute does not require that a certain percentage or amount be funded by the state, but instead reads "within the limits of available funds, the board shall provide grants. . .". Therefore, the state is meeting its statutory obligation, but the portion paid by local governments has increased substantially over the past nine years.

Options:

Counties that receive any state general fund grants are required to adhere to the provisions of the Montana Youth Court Act although support has continued to decrease from the state. To allow counties more opportunity to plan and budget for juvenile detention centers, the legislature may want to establish a minimum amount or percent in statute that will be provided in grants for juvenile detention centers.

New Proposals

Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5 - Legal Services										
01	0.00	0	0	6,250	6,250	0.00	0	0	6,250	6,250
Total	0.00	\$0	\$0	\$6,250	\$6,250	0.00	\$0	\$0	\$6,250	\$6,250

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 5 - Legal Services - The executive requests federal funds for consultant and professional services to contract with Agency Legal Services in the Department of Justice for legal services. Currently, the Department of Justice Appellate

Legal Services Bureau and Legal Services provide the service at no cost. Workload in both those areas has grown to where the department states that it can no longer provide the service needed.

**LFD
COMMENT**

The Board of Crime Control is administratively attached to the Department of Justice. In the past, Justice provided legal support for the Board of Crime Control pro gratis. Statute states the Board of Crime control is exempt from 2-15-121(2)(b), MCA that states "An agency allocated to a department for administrative purposes only in this chapter shall: . . . (d) provide staff for the agency. Unless otherwise indicated in this chapter, the agency may not hire its own personnel." Therefore, due to increased workload and reductions due to the August 2002 Special Session, the Department of Justice has told the board that it needs to purchase needed legal services from the Agency Legal Services Bureau. The Agency Legal Services Bureau charges \$70 per hour for an attorney and \$38 per hour for paralegals.

Language**Prior Year Federal Grant Authority**

The Board of Crime Control administers several federal pass-through grants that have authority for three-years, on a federal fiscal-year basis. To provide continuing authority for the pass-through grants, the pass-through grants are biennial appropriations and the following language allows prior biennium federal grant authority to continue into the 2005 biennium. The executive recommends the following language for inclusion in HB 2.

"All remaining federal pass-through grant appropriations, including reversions, for the 2003 biennium are authorized to continue and are appropriated in fiscal year 2004 and fiscal year 2005."

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	713.20	3.00	(1.45)	714.75	3.00	(3.45)	712.75	712.75
Personal Services	30,662,678	3,137,141	(73,687)	33,726,132	3,247,205	(226,058)	33,683,825	67,409,957
Operating Expenses	14,289,109	848,676	(221,070)	14,916,715	335,517	(31,634)	14,592,992	29,509,707
Equipment	1,592,615	141,565	0	1,734,180	266,481	0	1,859,096	3,593,276
Local Assistance	0	0	0	0	0	0	0	0
Benefits & Claims	804,398	83,982	0	888,380	83,982	0	888,380	1,776,760
Transfers	0	0	25,000	25,000	0	25,000	25,000	50,000
Debt Service	770,160	1,289,144	3,900,000	5,959,304	(6,856)	0	763,304	6,722,608
Total Costs	\$48,118,960	\$5,500,508	\$3,630,243	\$57,249,711	\$3,926,329	(\$232,692)	\$51,812,597	\$109,062,308
General Fund	23,647,394	2,055,727	(2,359,202)	23,343,919	1,624,662	(2,309,335)	22,962,721	46,306,640
State/Other Special	21,081,629	3,058,398	5,409,741	29,549,768	1,913,404	1,512,395	24,507,428	54,057,196
Federal Special	2,700,049	224,648	622,083	3,546,780	230,954	606,871	3,537,874	7,084,654
Proprietary	689,888	161,735	(42,379)	809,244	157,309	(42,623)	804,574	1,613,818
Total Funds	\$48,118,960	\$5,500,508	\$3,630,243	\$57,249,711	\$3,926,329	(\$232,692)	\$51,812,597	\$109,062,308

Agency Description

The Department of Justice, under the direction of the Attorney General, is responsible for statewide legal services and counsel, law enforcement, and public safety, as authorized in 2-15-501, MCA. The duties of the department include: 1) providing legal representation for the state and its political subdivisions in criminal appeals; 2) providing legal services and counsel for the state, county and municipal agencies, and their officials; 3) enforcing Montana traffic laws and registering all motor vehicles; 4) enforcing state fire safety codes and regulations; 5) assisting local law enforcement agencies in bringing offenders to justice; 6) managing a statewide system of death investigations and providing scientific analyses of specimens submitted by law enforcement officials, coroners and state agencies; 7) maintaining and disseminating criminal justice information to authorized state, local, and other entities; and 8) providing uniform regulation of all gambling activities in the state of Montana.

Reorganization

During the fiscal 2001, the agency combined the Montana Law Enforcement Academy with the Division of Criminal Investigations and eliminated one administrator position.

Supplemental Appropriation Description

Major Litigation

The 2001 legislature approved general fund of \$400,000 for a biennial appropriation for major litigation handled on behalf of the state. In February 2002, the department requested that the fiscal 2003 appropriation of \$200,000 be moved forward to fiscal 2002 as only \$34,000 remained in the fiscal 2002 appropriation. The executive has included a general fund supplemental appropriation of \$250,000 for the remainder of fiscal 2003.

One major expense in fiscal 2002 was the lawsuit regarding the Automated Accounting and Reporting System in the Gambling Control Division. Major litigation funds of approximately \$129,000 were spent for this purpose in fiscal 2002. Other major cases represented by the department during the 2003 biennium and ongoing include: mining regulation, laws regulating game farms, the school fund lawsuit, and potential tobacco lawsuits.

Prisoner Per Diem

The executive requests approval for a \$250,000 general fund supplemental for prisoner per diem. In June 2002, the department requested a transfer of \$112,894 from fiscal 2003 funds to fiscal 2002 for costs associated with boarding prisoners in county detention facilities. Fiscal 2003 funds were also reduced by \$32,500 in the reductions ordered by the Governor under 17-7-140, MCA. The amount remaining after these reductions was \$927,356.

Statute requires that if funds are transferred from the second year of the biennium to the first that the agency present a plan for reducing expenditures in the second year of the biennium that "allows the agency to contain expenditures within appropriations". The Highway Patrol is exempt from this statute under 17-7-301(2)(c)(ii), MCA.

The department is required to pay county detention costs for prisoners arrested by the Montana Highway Patrol. Statute sets the boarding cost as a "rate that is agreed upon by the arresting agency and the detention center and that covers the reasonable costs of confinement, excluding capital construction costs". The Department of Corrections renews the contracts with county detention facilities annually and the rates have increased throughout the years. The only way the department can control these costs is by limiting the number incarcerated. The department implemented such a cost reduction incarceration policy as part of the reductions ordered by the Governor under 17-7-140, MCA, expecting to offset the \$112,894 transferred to fiscal 2002 and to save an additional \$32,500. These savings have not occurred.

At fiscal year end 2002, the department accrued \$288,205 for fiscal 2002 prisoner per diem costs. Included in this amount was the \$112,894 transferred from fiscal 2003. As of December 1, \$111,338 of the accrued amount had been expended, leaving \$176,867 in fiscal 2002 funds to pay for fiscal 2002 costs.

It appears that the transfer of fiscal 2003 funds may not have been necessary. If the department does not receive any more late bills for county jail costs, the department unnecessarily reduced funds available for fiscal 2003. In addition, LFD staff pointed out at the time of the request for the transfer of fiscal 2003 funds, that the department had carry-forward funds of \$59,240 from fiscal 2000 and \$164,567 from fiscal 2001 that could be used to offset the additional prisoner per diem costs. (The fiscal 2001 carry-forward funds were reduced by \$40,000 in the August 2002 Special Session.) The department stated that the funds would be used to offset shortfalls in other areas. As of December 1, 2002, carry-forward funds of \$124,567 in general fund were still available and could be used to offset the supplemental request.

Counties have routinely been remiss in submitting timely invoices to the department. This has made it difficult to determine outstanding costs. However, this supplemental request could have been reduced to \$12,500 if fiscal 2003 funds were not transferred and all remaining carry-forward funds were used.

The department will present legislation stating that an agency is not responsible for costs submitted more than 90 days after the last day of the state fiscal year. To have a more accurate idea of outstanding detention costs, the legislature may want to require detention centers to submit costs within 90 days of incurring the expense, rather than "after the last day of the state fiscal year". This would allow the agency to project more accurately whether the appropriation will be sufficient towards the end of a fiscal year.

**LFD
ISSUE**

The legislature may want to make the prisoner per diem appropriation a biennial appropriation in the future. This could help prevent the request for a supplemental in the future as it provides greater flexibility in using the funds in either year.

Agency Discussion

Department of Justice Major Budget Highlights	
○ Reduction of approximately \$1.0 million general fund in 2005 biennium request compared to base (reduction of 2.1 percent) ○ Increase of \$12.8 million in total funds over the base budget (increase of 13.3 percent) ○ \$5.2 million for debt service on motor vehicle system ○ \$2.2 million to replace general fund at Law Enforcement Academy ○ Reduction of 13.45 general funded FTE reduces general fund by \$0.9 million ○ Increase of 13.00 FTE and operating expenses for \$1.7 million in state special and federal revenue funds	
Major LFD Issues	
○ Viability of gambling license fee account ○ Cap prisoner per diem rates ○ Determine if the Child Protective Services unit is a priority for continued funding ○ Bring funding of Gambling Control Division into compliance with statute	

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget						
<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Proprietary</u>	<u>Grand Total</u>	<u>Total %</u>
Legal Services Division	\$ 7,112,014	\$ 614,491	\$ 1,010,983	\$ -	\$ 8,737,488	8.0%
Gambling Control Division	461,700	3,824,098	-	1,561,955	5,847,753	5.4%
Motor Vehicle Division	17,355,087	6,060,396	-	-	23,415,483	21.5%
Highway Patrol Division	2,370,287	36,833,279	1,641,972	-	40,845,538	37.5%
Division Of Criminal Investigation	4,859,771	3,080,487	3,725,337	-	11,665,595	10.7%
Information Technology Svcs Division	5,790,363	2,118,746	326,256	20,398	8,255,763	7.6%
County Attorney Payroll	3,246,680	-	-	-	3,246,680	3.0%
Central Services Division	662,342	919,291	-	31,465	1,613,098	1.5%
Forensic Science Division	4,448,396	606,408	380,106	-	5,434,910	5.0%
Grand Total	<u>\$ 46,306,640</u>	<u>\$ 54,057,196</u>	<u>\$ 7,084,654</u>	<u>\$ 1,613,818</u>	<u>\$ 109,062,308</u>	<u>100.0%</u>

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	716.20	(1.45)	714.75	716.20	(3.45)	712.75	713.20	712.75
Personal Services	33,799,819	(73,687)	33,726,132	33,909,883	(226,058)	33,683,825	62,454,629	67,409,957
Operating Expenses	15,137,785	(221,070)	14,916,715	14,624,626	(31,634)	14,592,992	29,322,507	29,509,707
Equipment	1,734,180	0	1,734,180	1,859,096	0	1,859,096	3,577,214	3,593,276
Local Assistance	0	0	0	0	0	0	0	0
Benefits & Claims	888,380	0	888,380	888,380	0	888,380	1,610,698	1,776,760
Transfers	0	25,000	25,000	0	25,000	25,000	0	50,000
Debt Service	2,059,304	3,900,000	5,959,304	763,304	0	763,304	2,343,474	6,722,608
Total Costs	\$53,619,468	\$3,630,243	\$57,249,711	\$52,045,289	(\$232,692)	\$51,812,597	\$99,308,522	\$109,062,308
General Fund	25,703,121	(2,359,202)	23,343,919	25,272,056	(2,309,335)	22,962,721	40,308,016	46,306,640
State/Other Special	24,140,027	5,409,741	29,549,768	22,995,033	1,512,395	24,507,428	51,673,887	54,057,196
Federal Special	2,924,697	622,083	3,546,780	2,931,003	606,871	3,537,874	5,852,346	7,084,654
Proprietary	851,623	(42,379)	809,244	847,197	(42,623)	804,574	1,474,273	1,613,818
Total Funds	\$53,619,468	\$3,630,243	\$57,249,711	\$52,045,289	(\$232,692)	\$51,812,597	\$99,308,522	\$109,062,308

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 102 - Funding Authority for Restorative Justice Office										
01	1.00	0	0	66,192	66,192	1.00	0	0	66,030	66,030
DP 703 - Reduce FTE										
07	(3.00)	0	(102,434)	0	(144,273)*	(3.00)	0	(103,031)	0	(145,114)*
DP 705 - Additional Reduction in AARS										
07	0.00	(107,350)	0	0	(107,350)	0.00	(107,350)	0	0	(107,350)
DP 1205 - Eliminate 9.45 FTE										
12	(7.45)	(179,091)	0	0	(179,091)	(9.45)	(276,904)	0	0	(276,904)
DP 1206 - Reduction of Motor Pool Vehicles										
12	0.00	(40,000)	0	0	(40,000)	0.00	(40,000)	0	0	(40,000)
DP 1304 - Executive Protection										
13	2.00	0	133,583	0	133,583	2.00	0	133,500	0	133,500
DP 1802 - Eastern Montana Drug Task Force										
18	2.00	0	47,453	142,358	189,811	2.00	0	47,453	142,358	189,811
DP 1803 - High Intensity Drug Traffic Area Funding										
18	1.00	0	0	54,769	54,769	1.00	0	0	54,769	54,769
DP 1805 - Legislative Contract Authority										
18	0.00	0	25,000	0	25,000	0.00	0	25,000	0	25,000
DP 1806 - Homeland Security Program										
18	3.00	0	0	231,890	231,890	3.00	0	0	217,133	217,133
DP 1902 - Reductions in Personal Services										
19	0.00	(147,634)	0	0	(147,634)	0.00	(226,121)	0	0	(226,121)
DP 2804 - Fund Switch										
28	0.00	(11,610)	12,150	0	0*	0.00	(11,610)	12,150	0	0*
DP 3203 - Chemist										
32	1.00	0	0	50,798	50,798	1.00	0	0	49,342	49,342
DP 7001 - Legal Services FTE Reduction										
01	(1.00)	(36,032)	0	0	(36,032)	(1.00)	(36,008)	0	0	(36,008)
DP 7001 - Eliminate 3 FTE/ 1 FTE Fund Switch										
18	(3.00)	(209,419)	0	76,076	(133,343)	(3.00)	(210,821)	0	77,239	(133,582)
DP 8001 - Delay Requirement for New License Plates										
12	0.00	(251,415)	0	0	(251,415)	0.00	0	0	0	0
DP 8001 - Criminal Justice Information System FTE										
29	3.00	(120,794)	290,589	0	169,795	3.00	(120,839)	290,371	0	169,532
DP 8002 - Reduce Number of Decals										
12	0.00	(152,457)	0	0	(152,457)	0.00	(172,730)	0	0	(172,730)
DP 8003 - Motor Vehicle Registration Automation										
12	0.00	0	3,900,000	0	3,900,000	0.00	0	0	0	0
DP 8003 - Fund Switch MLEA Pending Legislation										
18	0.00	(1,103,400)	1,103,400	0	0	0.00	(1,106,952)	1,106,952	0	0
Total	(1.45)	(\$2,359,202)	\$5,409,741	\$622,083	\$3,630,243*	(3.45)	(\$2,309,335)	\$1,512,395	\$606,871	(\$232,692)*

Elected Official: New Proposal

As an elected official, the Attorney General is authorized in statute to bring new proposals to the legislature, even though the new proposals were not included in the Executive Budget.

- Computer Crime Unit - The Attorney General requests \$400,000 general fund for the biennium for the Computer Crime Unit. This unit, within the Division of Criminal Investigation, will serve as a resource to local law enforcement by: 1) providing forensic analysis support to local agencies; 2) assist local agencies in seizing and analyzing computers and electronically stored evidence; 3) serve as a resource to assist in the investigation of all forms of high-technology crimes; and 4) strive to train other state and local agencies in handling of computer evidence and the investigation of computer crime.
- Forensic Science Division - The division has requested a Latent Print Examiner position in decision package PL - 3201. To obtain federal funding for this position, a 30 percent general fund match is required and requested. Currently the crime lab has a one-year backlog in this area. Delays can result in criminal cases not being processed or moved through the courts. The Latent Print Section processes latent prints, footwear, tire track and

other impression evidence for Montana law enforcement. The general fund for this position would be approximately \$16,500 each year of the biennium.

LFD COMMENT

If the legislature approves this elected official proposal, the federal funds in PL 3201 can be reduced by \$16,500 each year of the biennium

Agency Issues

Fund Balance of Gambling License Fee State Revenue Account

Revenues to the gambling license fee account are generated through licenses and permits for gambling operators, machines, and other gambling activities, as well as license fees for video gambling machine manufacturers/distributors. The majority of the revenue in this account comes from the license fee for video gambling machines. By statute, the department is to charge \$200 for each video gambling machine permit and \$25 for each machine where ownership is transferred. Revenues to the gambling license fee account are 50 percent of the gambling machines permit fee (the other 50 percent goes to local governments) and 100 percent of the machine transfer-processing fee.

An analysis of the gambling license fee account projects a negative fund balance at the end of fiscal 2003 and through the 2005 biennium if the department expends the amount appropriated from this fund and if revenues do not exceed projections. During the last legislative session, the legislature accepted the division plan to internally mitigate the shortfall in the 2003 biennium. The department mitigated the shortfall in fiscal 2002 through leaving vacant positions unfilled, voluntary early retirement of 4.0 FTE (1.0 FTE was subsequently filled), not purchasing the imaging equipment approved by the last legislature, and other operating expense reductions. To maintain a positive fund balance at the end of fiscal 2003, the department will have to continue many of the reductions in order to spend \$0.4 million less than the amount appropriated.

Revenues have been sluggish since fiscal 1998, and in fact declined in fiscal years 2000 and 2001 and showed less than a one-half percent increase in fiscal 2002. Gambling license fee revenues are projected to increase less than 1.0 percent in fiscal 2003 with no increase projected for fiscal 2004 and a very slight decrease in fiscal 2005. There is concern that the provision of the Automated Accounting and Reporting System (AARS) legislation that allows more than one game to be on a video gambling machine will lead to a reduction in the number of video gambling machines and impact revenues.

The 15 percent video gambling tax has not shown any decline through the years. Revenues from this tax have increased by approximately 4.6 percent per year.

Figure 1 on page D-14 shows the status of the gambling license fee account through the 2005 biennium, based upon projected gambling license fee revenues and appropriations requested in the Executive Budget. As shown in the table, disbursements for ongoing expenditures are projected to exceed revenue projections in fiscal 2004 and 2005 by slightly over \$0.1 million each year. Due to the reductions forced in fiscal 2002 because of the fund shortfall, the base expenditures are approximately \$0.4 million less than fiscal 2001. A new proposal to reduce 3.00 FTE will keep the 2005 biennium expenditures in line with the base year and maintain expenditures at a level closer to projected revenues, but a structural imbalance still exists within the account.

Options:

The solvency of this account has been an issue for several biennia. With flat or declining revenues, a fund balance of over \$800,000 in fiscal 1999 has slowly been eroded to \$37,000 for fiscal 2002 as expenditures have increased due to inflation, pay plan increases, and implementation and development of the automated accounting and reporting system. The legislature may want to consider legislation that would:

- o Increase the gambling machine permit fee. The last permit fee increase occurred 14 years ago, when the fee was increased from \$100 to \$200. Based on the number of permits issued in fiscal 2002, each \$10 increase in the

gambling machine permit fee would generate approximately \$188,700. If the Executive Budget is approved as requested, a \$15 increase would leave the fund with a positive balance in fiscal years 2004 and 2005

- Increase the percent of the gambling machine permit fee distributed to the state. Each percent increase would result in approximately \$40,000 in additional state funds. An increase from 50.0 percent to 53.0 percent would be needed to ensure fund solvency at the end of the 2005 biennium.

The state assumed all responsibility for regulation and tax collection related to gambling in 1989 and at that time established the 50/50 split of the gambling machine permit fees with local governments. The 50/50 split was to hold local government harmless for fees collected prior to 1989. Since that time the workload of the division has increased substantially as the number of permits have increased over 70 percent. In addition to the permit fee revenue, local governments received two-thirds of video gambling tax revenue prior to passage of HB 124. These revenues historically increased approximately 4.0 percent each year. With the passage of HB 124, the state reimburses local governments for this lost revenue through a general fund statutory appropriation. It can be argued that local governments were more than held harmless since they continue to receive this revenue with no regulatory duties

- Dedicate a small percentage of the video gambling tax revenue to the Gambling Control Division (this would provide a source of revenue that has continued to grow each year and would have the potential to cover increased costs of the division due to inflation and pay plan increases). This would have a negative impact to the general fund
- Increase the video gambling tax and dedicate a portion of the increased amount to the Gambling Control Division. A 1.0 percent increase in the video game tax results in approximately \$2.9 million
- Reduce the services offered by the Gambling Control Division. Due to the regulatory nature of the division, reductions in service would most likely result in a delay in the licensing process or fewer: 1) audits; 2) criminal background checks; and/or 3) investigations

The division may propose legislation to increase the permit fee to \$220 with \$100 continuing to go to local governments and \$120 to the state special revenue account.

Figure 1
Gambling License Fee Account

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Beginning Balance	\$86,596	\$37,517	\$0	(\$117,301)
<u>Revenue</u>				
Gambling License Fee Account	3,929,471	3,961,900	3,961,900	3,961,150
Misc. Fine/Forfeit.	71,892	0	0	0
Other	949	1,250	1,250	1,250
Total Revenue	<u>\$4,002,312</u>	<u>\$3,963,150</u>	<u>\$3,963,150</u>	<u>\$3,962,400</u>
<u>Disbursements</u>				
Statutory Distributions	1,940,712	1,875,959	1,875,959	1,875,604
Base Budget				
Legal Services	210,396	235,292	144,286	144,230
Gambling Control	1,832,670	2,175,624	1,868,170	1,870,307
SA-Lab Test	50,087	50,745	58,264	58,128
Central Services	41,582	42,616	50,477	47,158
JISD Services	36,686	23,453	36,686	36,686
Present Law Adjustments				
Gambling Control			150,676	140,410
Central Services				
New Proposals				
Gambling Control			(102,434)	(103,031)
Central Services			(1,633)	(1,633)
Pay Plan Adjust.				
Total Disbursements	<u>\$4,112,133</u>	<u>\$4,403,689</u>	<u>\$4,080,451</u>	<u>\$4,067,859</u>
Adjustments	60,742	0		
Ending Balance	37,517	(403,022)	(117,301)	(222,760)
Fund Balance	<u>\$37,517</u>	<u>(\$403,022)</u>	<u>(\$117,301)</u>	<u>(\$222,760)</u>
FY03 Projected Reductions/Saving		403,022		
Carryforward Amount	<u>\$37,517</u>	<u>\$0</u>	<u>(\$117,301)</u>	<u>(\$222,760)</u>

Other Agency Issues

In order to provide the legislature with alternatives and flexibility, the following information is provided on: 1) the Automated Accounting and Reporting System; 2) capping the prisoner per diem rate; 3) the child protection unit; and 4) outreach driver license stations.

Automated Accounting and Reporting System (AARS)

The 1999 legislature passed legislation authorizing the AARS. The concept began with a recommendation from the Legislative Auditor in 1994 and the legislation was a culmination of several years of working with the industry for support of the system. The total funding committed to AARS in 1999 was \$1.9 million general fund (over a five-year period) and \$0.6 million in gambling license fee state special revenue. The system would allow gaming machines to communicate via telephone lines with a central computer system to:

- Verify that only approved gaming software is running
- Collect information on machine play
- Ensure the accuracy of taxes, and to provide some of the regulatory responsibilities of the division in a more efficient manner

A contract was signed with Lodging and Gaming Systems (LGS) in September of 2000 to develop AARS. A dispute arose and resulted in a suit being filed against LGS for failing to fulfill its contractual obligations. The division reached an agreement with LGS and the department states that AARS will be installed in up to 20 locations by January 2003.

Statute reads that: "Revenue to fund the expense of administration and control of gambling as regulated by parts one through eight of this chapter must be derived solely from fees, taxes, and penalties on gambling activities, except the gambling activities of the Montana state lottery and the perimutuel industry" (23-5-110, MCA). In contradiction to statute, general fund of \$380,000 was appropriated by the 1999 legislature along with a commitment in language that \$380,000 would be appropriated for four more years (totaling \$1,900,000 general fund). The 2001 legislature extended the commitment in language by stating: "It is the intent of the legislature that an annual general fund commitment of \$236,250 be continued in each year of the 2007 biennium." This represents a total general fund commitment of \$2.4 million. The original general fund appropriation of \$1,900,000 was based on the understanding that approximately \$1,500,000 had been taken out of the gambling license fee account and deposited in the general fund in the 1989 biennium and the general fund commitment for AARS was in repayment of those funds. With the extended commitment through the 2007 biennium plus unanticipated general fund litigation expenses, the general fund commitment would equal \$2,600,000 assuming no additional litigation costs (see following table).

AARS Costs									
	Fiscal 2000 Expenditures	Fiscal 2001 Expenditures	Fiscal 2002 Expenditures	Fiscal 2003 Appropriation	Fiscal 2004 Request	Fiscal 2005 Request	Fiscal 2006 Language Commitment	Fiscal 2007 Language Commitment	Total
<u>General Fund</u>									
Development of AARS	\$380,000	\$380,000	\$379,999	\$338,200	\$230,850	\$230,850	\$236,250	\$236,250	\$2,412,399
LGS Litigation	4,084	8,324	128,615	0	0	0	0	0	141,023
Subtotal General Fund	\$384,084	\$388,324	\$508,614	\$338,200					\$2,553,422
<u>State Special/Proprietary Funds</u>									
Development of AARS	1,891	549,115	0	0	0	0	0	0	551,006
Total Expenditures	<u>\$385,975</u>	<u>\$937,439</u>	<u>\$508,614</u>	<u>\$338,200</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,104,428</u>

If the legislature chooses to replace the general fund of \$461,700 for the 2005 biennium with revenue from fees, taxes, and/or penalties from gambling activities, the following options could be considered. (Additional general fund savings of \$472,500 would occur in the 2007 biennium.)

Options:

- Increase the gambling machine permit fee. To cover the amount of general fund requested for the 2005 biennium, an increase of \$25 would be needed based on the number of permits issued in fiscal 2002. The \$25 would generate approximately \$472,000 each year with half going to local governments
- Increase the percent distributed to the state. Each 1 percent increase in the state percentage results in approximately \$40,000. An increase from 50.0 percent to 56.0 percent would cover the AARS general fund
- Dedicate a small percentage of the video gambling tax revenue to the Gambling Control Division. This would have a negative impact on the general fund
- Increase the video gambling tax and dedicate a portion of the increased amount to the Gambling Control Division. A 1.0 percent increase in the video game tax results in approximately \$2.9 million

Decrease the services provided by the division and utilize those gambling license fee account monies for AARS

Cap Prisoner Per Diem Rate

The department is required to pay county detention costs for prisoners arrested by the Montana Highway Patrol. The rate

is not based on the amount of services provided. Statute sets the boarding cost as a "rate that is agreed upon by the arresting agency and the detention center and that covers the reasonable costs of confinement, excluding capital construction costs" (7-32-2242, MCA). The Department of Corrections renews the contracts with county detention facilities annually and the rates have increased throughout the years. Disparities between rates charged by counties are evident in the following facts:

- Daily rates at the various detention facilities range from \$32 to \$86 per day in fiscal 2003
- The average cost per day increased 8.0 percent over the last two years, but nine county rates increased 25.0 percent or more (as high as 129.0 percent) over the last two years
- Over the last five years, the majority of counties have increased costs less than 2.0 percent each year

The mode, or most frequently occurring rate, among the counties has been \$50 since 1996. The median rate, or middle value in the array of rates, was \$47 per day in fiscal years 2000 and 2001 but jumped to \$50 in fiscal 2003. The average cost per day has hovered slightly over \$48 in fiscal years 2000 through 2002 and is over \$52 in fiscal 2003.

Based on current projections by the Department of Justice, prisoner per diem costs are projected to be \$2.5 million for the 2005 biennium and \$1.2 at the Department of Corrections.

Options:

- In an effort to control prisoner per diem costs and because there is such a difference in daily rates, the legislature may want to change statute to hold rates at current level for those facilities charging \$50 per day or less and provide a cap of \$50 per day for those facilities charging above \$50 per day. An annual adjustment factor for inflation could be added. Based on current projections by the Department of Justice, prisoner per diem costs are projected to be \$2.5 million for the 2005 biennium and \$1.2 at the Department of Corrections. The legislature would save \$0.5 million in the 2005 biennium in the Department of Justice with additional savings in the Department of Corrections if this option were enacted; OR
- The legislature may want to cap the rate at a lower rate of \$45 as the reimbursement rate for the regional prisons ranges from \$43.88 per day to \$47.17 and some programming is included in those rates. If the above option were enacted, the legislature would save \$0.6 million in the 2005 biennium in the Department of Justice with additional savings for the Department of Corrections

Rates paid in two surrounding states show:

- Idaho - Idaho faced a problem similar to Montana 10 years ago with counties having contracts with different amounts. Idaho statute now specifies that the Department of Corrections will not enter into contracts with counties and all counties are paid the same amount. Idaho statute was recently amended where the reimbursement rate of \$35 a day was increased to \$40 a day
- Utah - the Utah statute reads: "The legislature shall fund the total jail reimbursement core inmate incarceration costs at the rate of 70.0 percent." The core rate for fiscal 2002 is \$43.23 per day, plus a county-specific rate for medical and transportation costs. The Utah Legislative Fiscal Analyst that is assigned the Department of Corrections stated the rate for medical and transportation average an extra \$6.00 per day. Therefore, the total rate paid by the state would be 70 percent of \$43.23 plus \$6.00 or \$36.26.

Assist County Attorneys in Child Protection Cases

The legislature approved approximately \$0.5 million general fund for the 2001 biennium in a new proposal to hire 5.0 FTE attorneys and 2.5 FTE support staff to assist county attorneys across the state in handling child protection cases and other legal matters in the district courts. There are currently 4.0 FTE attorneys in the unit and 2.0 FTE support staff with locations in Missoula, Billings, and Miles City. One attorney position was held vacant to meet vacancy savings. Later in the year when vacancy savings had been met, the position was moved to the Information Technology Services Division where there was a need for a local area network manager. A 0.50 FTE support staff was moved to the Law Enforcement Academy. Expenditures for this unit totaled \$310,923 in fiscal 2002, of which \$233,193 was general fund.

Originally, the legal staff of the Child Protection Unit (CPU) only handled cases before the courts. The function of the unit has evolved to providing legal assistance and training for county attorneys and to also providing training and assistance to Child and Family Services Division personnel at the Department of Public Health and Human Services. A recent audit completed by the Legislative Auditor's Office states: "The initial role of the CPU was to be a resource for overworked county attorneys who had time-consuming child abuse and neglect cases. However, it was, and is the prerogative of each county attorney to decide whether to use CPU resources. At present, while CPU resources are being utilized in some counties, in others they are not."

Because the function this unit provides is not mandated in statute, the legislature may want to determine whether the service this unit provides is a priority to fund in the 2005 biennium. If the legislature chooses not to continue this service, a bill would not be required to eliminate this unit since statute does not direct this service. A reduction of the present law budget of \$233,193 and the reduction of 6.0 FTE associated with the unit are the only actions needed by the legislature to eliminate this program.

Travel Driver License Stations

One of the two driver license stations in Billings was closed as a result of reductions taken under 17-7-140, MCA. Most travel driver license stations are staffed by FTE that travel several times a month from a full-service station. In addition, the department must pay monthly computer line costs, phone, rent, per diem, and transportation costs to keep these offices open a few days each month. By closing the outreach offices, staff would not need to travel and would be able to increase the services at the full-service station. The inconvenience to customers is reduced by the fact that drivers' licenses only need to be renewed once every eight years. If rural outreach stations were closed, some individuals would have to travel up to 90 miles one way to obtain licensing services at a principal location.

There are currently a total of 53 driver license stations across the state. More than 70.0 percent of driver licensing transactions are processed in six driver license offices (Billings, Missoula, Kalispell, Great Falls, Bozeman, and Helena). The majority of the savings to the state would be in operating costs, as only 1.0 FTE would be impacted by this proposal. The department would need to determine an accurate savings amount that would be generated as a result of closing 23 of the travel driver license stations and increasing driver license services at full-service offices. Prior to the August 2002 Special Session reductions, the department estimated closing these stations would save approximately \$170,000 general fund over the biennium. This reduction of outreach stations would be an ongoing savings to the general fund.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	50.00	0.00	0.00	50.00	0.00	0.00	50.00	50.00
Personal Services	2,563,501	169,652	19,366	2,752,519	172,515	19,228	2,755,244	5,507,763
Operating Expenses	789,099	123,923	10,794	923,816	(266,558)	10,794	533,335	1,457,151
Equipment	0	(4,593)	0	(4,593)	(4,593)	0	(4,593)	(9,186)
Benefits & Claims	804,398	83,982	0	888,380	83,982	0	888,380	1,776,760
Debt Service	2,500	0	0	2,500	0	0	2,500	5,000
Total Costs	\$4,159,498	\$372,964	\$30,160	\$4,562,622	(\$14,654)	\$30,022	\$4,174,866	\$8,737,488
General Fund	3,439,681	346,826	(36,032)	3,750,475	(42,134)	(36,008)	3,361,539	7,112,014
State/Other Special	366,095	(59,427)	0	306,668	(58,272)	0	307,823	614,491
Federal Special	353,722	85,565	66,192	505,479	85,752	66,030	505,504	1,010,983
Total Funds	\$4,159,498	\$372,964	\$30,160	\$4,562,622	(\$14,654)	\$30,022	\$4,174,866	\$8,737,488

Program Description

The Legal Services Division provides:

- The Attorney General with legal research and analysis
- Legal counsel for state government officials, bureaus, and boards
- Legal assistance to local governments and Indian tribes
- Legal assistance, training, and support for county prosecutors

Indian Legal Jurisdiction provides representation and coordination of trial and appellate lawsuits involving the State of Montana and the Indian tribes, supervision of private attorneys contracted by the state to assist with those cases, and advice to state agencies on questions involving Indian legal matters.

County Prosecutor Services provides special prosecution assistance to counties in the prosecution and disposition of major felonies and in cases in which county attorneys or city attorneys have conflicts of interest. County Prosecutor Services also provides prosecutor services to the Eastern Coal Counties Drug Task Force and the Western Montana Special Investigation Section and coordinates training and continuing legal education for county attorneys, city attorneys, and law enforcement personnel. The Child Protection Unit assist county attorneys across the state in handling child protection cases and other legal matters in the district courts.

Office of Victim Services and Restorative Justice is a consolidated effort to elevate the status and respond to the needs of victims of crime in Montana. The office also provides the cross training and coordination with local law enforcement to more fully address the broad needs of victims.

Program Narrative

Legal Services Division Major Budget Highlights	
o	Increase of \$232,652 general fund requested for 2005 biennium over the base budget - 3.3 percent increase
o	Increase of \$418,492 total funds requested for the 2005 biennium over the base budget – 5.0 percent increase
o	The general fund increase is for statewide present law adjustments
o	New proposals to eliminate 1.00 general funded FTE and add 1.00 federal funded FTE
Major LFD Issues	
o	Biennial/restricted appropriation for major litigation

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Legal Services Division							
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005	
01100 General Fund	\$ 3,439,681	82.7%	\$ 3,750,475	82.2%	\$ 3,361,539	80.5%	
02003 Misc Grants And Nrd	107,298	2.6%	117,821	2.6%	118,624	2.8%	
02013 Continuing Legal Education	6,215	0.1%	6,215	0.1%	6,215	0.1%	
02074 Gambling License Fee Account	210,397	5.1%	144,286	3.2%	144,230	3.5%	
02337 Antitrust Activity	2,088	0.1%	2,088	0.0%	2,088	0.1%	
02422 Highways Special Revenue	40,097	1.0%	36,258	0.8%	36,666	0.9%	
03169 Federal Crime Victims Benefits	225,000	5.4%	308,982	6.8%	308,982	7.4%	
03187 Bcc Grants To Dept. Of Justice	50,992	1.2%	113,341	2.5%	113,059	2.7%	
03801 Dept Of Justice-Misc Grants	77,730	1.9%	83,156	1.8%	83,463	2.0%	
Grand Total	\$ 4,159,498	100.0%	\$ 4,562,622	100.0%	\$ 4,174,866	100.0%	

Federal funds support 75.0 percent of one attorney and operating costs in the area of drug prosecution, as well as 25.0 percent of the Child Protection Unit.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					347,717					350,738
Vacancy Savings					(112,408)					(112,566)
Inflation/Deflation					3,863					7,567
Fixed Costs					37,063					42,902
Total Statewide Present Law Adjustments					\$276,235	\$288,641				
DP 101 - Crime Victims Federal Authority	0.00	0	0	83,982	83,982	0.00	0	0	83,982	83,982
DP 103 - Major Litigation	0.00	93,012	0	0	93,012	0.00	(306,988)	0	0	(306,988)
DP 7002 - On-going Special Session Reductions	0.00	(80,265)	0	0	(80,265)	0.00	(80,289)	0	0	(80,289)
Total Other Present Law Adjustments										
	0.00	\$12,747	\$0	\$83,982	\$96,729	0.00	(\$387,277)	\$0	\$83,982	(\$303,295)
Grand Total All Present Law Adjustments					\$372,964	(\$14,654)				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 101 - Crime Victims Federal Authority - The federal government matches state general fund expenditures on claims paid to victims of crime through the Crime Victim Compensation Program. Beginning in fiscal 2004, the federal share will increase from 40.0 percent to 60.0 percent. The executive requests a biennial increase of federal spending authority of \$167,964 to pay victims of crime.

DP 103 - Major Litigation - Base expenditures for major litigation were \$306,926. The executive requests funds to bring the major litigation appropriation to the \$400,000 biennial level established by the last legislature. Prior to the Fifty-seventh Legislature, the biennial appropriation was historically \$500,000. Major litigation expenses typically involve major lawsuits filed against the State of Montana where the Legal Services Division must provide representation to the state. The on-going cases include mining regulation, laws regulating game farms, the constitutionality of the state public defender system, and enforcement of the state tobacco settlement and associated statutes. Funding may also be needed for an anticipated challenge to the state system for school funding.

LFD ISSUE

Biennial/Restricted Appropriation

Because the funds are for a specific function, the legislature may want to approve the \$400,000 as a biennial, restricted appropriation

DP 7002 - On-going Special Session Reductions - The executive requests continuation of the reductions taken in the August 2002 Special Session reductions. Reductions include personal services, operating expenses, and equipment.

LFD COMMENT

This decision package is part of an overall reduction to the original request of the department. The executive has reduced the program original budget request by \$160,554 general fund for the biennium to meet the department mandated general fund reduction, based on a continuation of the reductions made during the August 2002 Special Session. This reduction represents the division share based on the department's reallocation of the overall reduction. Approximately \$131,400 would be reduced in personal services, \$20,000 in operating expenses and \$9,200 in equipment. This represents a 2.1 percent reduction in the division present law general fund. The personal services reduction includes elimination of a grade 10 FTE.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 102 - Funding Authority for Restorative Justice Office										
01	1.00	0	0	66,192	66,192	1.00	0	0	66,030	66,030
DP 7001 - Legal Services FTE Reduction										
01	(1.00)	(36,032)	0	0	(36,032)	(1.00)	(36,008)	0	0	(36,008)
Total	0.00	(\$36,032)	\$0	\$66,192	\$30,160 *	0.00	(\$36,008)	\$0	\$66,030	\$30,022 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 102 - Funding Authority for Restorative Justice Office - The 2001 legislature passed HB 637, which created the Office of Restorative Justice. The purpose of the office is to restore victims, reform offenders who are at a low risk for violence, and decrease recidivism in lower-cost community programs rather than the higher cost of incarceration. The executive requests federal funding authority for the Restorative Justice Program to support 1.00 FTE and associated operating expenses.

LFD COMMENT

The program was not funded through HB 2 during the 2003 biennium; therefore, the executive is requesting approval of federal authority through a new proposal. The program was starting up in fiscal 2002 and approximately \$37,000 in federal grant monies was expended. The grade 17 position is requested as a step 13.

DP 7001 - Legal Services FTE Reduction - The executive requests a decrease in general fund for the elimination of 1.00 FTE administrative support position. Holding this position open was part of the August 2002 Special Session reductions.

Program Description

Agency Legal Services (ALS) Bureau provides legal assistance, hearings examiner, and investigative services to state agency clients on a contract basis. The bureau is funded on a proprietary basis, charging hourly fees and case-related costs to client agencies. The Bankruptcy Program, which is attached to this bureau, provides legal representation and advice to state agency clients regarding bankruptcy matters.

The bureau currently has 20.00 FTE funded from the revenues generated.

Proprietary Rates**Revenues and Expenses**

A rate increase was approved by the 2001 legislature to \$70 for attorneys and \$38 for paralegals to provide sufficient cash flow for operational expenses. The executive requests an increase to \$71.80 for attorneys and \$39.80 for paralegals. The increase is due to the bureau moving from state-owned space to private space and the ability to cover the pay plan increase.

Working Capital Discussion. The objective of program management is to recover costs in order to fund necessary, ongoing operations.

Fund Equity and Reserved Fund Balance. While there is no requirement that an excess fund balance be maintained, the program seeks to build a limited capital reserve fund. The rates are influenced by the working capital necessary to maintain current operations.

Cash Flow Discussion. Cash flow into the program fluctuates depending on the volume of work in any given month, which can vary considerably.

Sufficient personnel are the drivers to achieve the requirements placed on the bureau. History has shown that the current staff has maintained the workload request from agencies. Staffing is monitored and 0.50 FTE will be eliminated for fiscal years 2004 and 2005.

The rate requested takes into account the projected workload and the known and expected expenditures. Various rates were analyzed to ensure the total fund equity did not increase. The minimum rate was requested, not addressing any requirement for a positive 60-day reserve.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06500,	Justice Legal	41100	Dept. of Justice	
06535				Agency Legal Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
ALS Att/Inv Revenue		-	-	1,250,000	1,400,000	1,400,000
Net Fee Revenue	1,097,476	1,108,657	1,254,066	1,250,000	1,400,000	1,400,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	61	718	117	-	-	-
Total Operating Revenues	1,097,537	1,109,375	1,254,183	1,250,000	1,400,000	1,400,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	1,097,537	1,109,375	1,254,183	1,250,000	1,400,000	1,400,000
Operating Expenses:						
Personal Services	877,076	835,868	971,705	1,045,164	1,030,286	1,032,389
Other Operating Expenses	201,763	232,496	247,470	223,118	265,897	268,993
Miscellaneous, operating	11,666	10,790	11,221	11,526	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	1,090,505	1,079,154	1,230,396	1,279,808	1,296,183	1,301,382
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	1,090,505	1,079,154	1,230,396	1,279,808	1,296,183	1,301,382
Operating Income (Loss)	7,032	30,221	23,787	(29,808)	103,817	98,618
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	7,032	30,221	23,787	(29,808)	103,817	98,618
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	9,912	-	-	-
Operating Transfers Out (Note 13)	-	-	(9,912)	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	(63,193)	(56,161)	(25,940)	(2,153)	(31,961)	71,856
Net Income (Loss)	7,032	30,221	23,787	(29,808)	103,817	98,618
Retained Earnings/Fund Balances - June 30	(56,161)	(25,940)	(2,153)	(31,961)	71,856	170,474
60 days of expenses (Total Operating Expenses divided by 6)	181,751	179,859	205,066	213,301	216,031	216,897

DP 601 – ALS Base Adjustment- Agency Legal Services is requesting a base adjustment to their budget that eliminates a 0.50 FTE and transfers rent costs from “DoA” Rent to “Non-DoA Rent” to reflect the division move to a non-state building. The rent figures include base costs plus the increased rent costs for the new building. The FTE reduction and the rent increase were both included into the ALS rate charge, approved by OBPP.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	47.50	0.00	(3.00)	44.50	0.00	(3.00)	44.50	44.50
Personal Services	2,001,223	216,894	(138,273)	2,079,844	214,393	(139,114)	2,076,502	4,156,346
Operating Expenses	894,642	11,070	(113,350)	792,362	16,123	(113,350)	797,415	1,589,777
Equipment	0	56,000	0	56,000	42,000	0	42,000	98,000
Debt Service	1,815	0	0	1,815	0	0	1,815	3,630
Total Costs	\$2,897,680	\$283,964	(\$251,623)	\$2,930,021	\$272,516	(\$252,464)	\$2,917,732	\$5,847,753
General Fund	380,000	(41,800)	(107,350)	230,850	(41,800)	(107,350)	230,850	461,700
State/Other Special	1,851,853	166,993	(102,434)	1,916,412	158,864	(103,031)	1,907,686	3,824,098
Proprietary	665,827	158,771	(41,839)	782,759	155,452	(42,083)	779,196	1,561,955
Total Funds	\$2,897,680	\$283,964	(\$251,623)	\$2,930,021	\$272,516	(\$252,464)	\$2,917,732	\$5,847,753

Program Description

The Gambling Control Division was established by the 1989 legislature to regulate the gambling industry in Montana. The division has criminal justice authority and conducts routine field inspections and investigations related to gambling activities. In addition to collecting and distributing licensing fees for gambling machines and activities, the division is responsible for collecting the gambling tax assessed on the net proceeds of gambling activities, and investigative functions relating to alcoholic beverage licensing and tobacco enforcement. The gambling control program operates as a state mandate. An appointed gaming advisory council of nine members provides advisory services to the Attorney General to ensure uniform statewide regulation of gambling activities.

Program Narrative

Gambling Control Division Major Budget Highlights	
○ Less than a 1 percent increase in total funds from the base budget ○ A 39.3 percent decrease in general fund from the base budget ○ Eliminate 3.00 FTE ○	
Major LFD Issues	
○ None	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Gambling Control Division						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 380,000	13.1%	\$ 230,850	7.9%	\$ 230,850	7.9%
02074 Gambling License Fee Account	1,832,668	63.2%	1,916,412	65.4%	1,907,686	65.4%
02390 God Loan Proceeds	-	-	-	-	-	-
02396 Sb354-Restaurant Beer & Wine	19,185	0.7%	-	-	-	-
02538 Gambling Aars	-	-	-	-	-	-
06005 Liquor Division	<u>665,827</u>	<u>23.0%</u>	<u>782,759</u>	<u>26.7%</u>	<u>779,196</u>	<u>26.7%</u>
Grand Total	<u>\$ 2,897,680</u>	<u>100.0%</u>	<u>\$ 2,930,021</u>	<u>100.0%</u>	<u>\$ 2,917,732</u>	<u>100.0%</u>

Primary funding for the Gambling Control Division comes from the revenues generated through licenses and permits for gambling operators, machines, and other gambling activities, as well as license fees for video gambling machine manufacturers/distributors. As authorized in Section 23-5-612, MCA, revenues include 50.0 percent of the gambling machine permit fee (the other 50.0 percent goes to local government) and 100.0 percent of the machine transfer processing fee. By statute, the department is to charge \$200 for each video gambling machine permit and \$25 for each machine that transfers ownership. The revenues are deposited into the gambling license fee state special revenue account to be used for the costs related to operations of the division and other agency programs.

In past biennia, general fund was appropriated to support the tobacco and alcohol beverage enforcement functions. The 2001 legislature passed HB 399, which revised the liquor license laws and created an enterprise fund. Proprietary funds were authorized to replace general fund for this function. In the 2003 biennium, liquor proprietary funded 26 percent of all functions, other than AARS. This percentage will increase to 29.0 percent in the 2005 biennium, based on an agreement with the Department of Revenue.

**LFD
ISSUE****Reduced Transfer to General Fund**

Because the net proceeds of the liquor enterprise fund are transferred to the general fund, any additional costs reduce the amount transferred to the general fund.

General fund continues to support (at a reduced level) the Automated Accounting and Reporting System (AARS) as established by the 1999 legislature, when it approved the establishment of the AARS.

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				295,565					292,956	
Vacancy Savings				(91,871)					(91,763)	
Inflation/Deflation				5,216					6,436	
Fixed Costs				(9,935)					(5,858)	
Total Statewide Present Law Adjustments				\$198,975						\$201,771
DP 701 - Budget Adjustments										
0.00	(41,800)	154,780	0	176,200 *	0.00	(41,800)	144,840	0	162,200 *	
DP 702 - Maintain AARS at Current Level										
0.00	(85,430)	0	0	(85,430)	0.00	(85,216)	0	0	(85,216)	
DP 704 - Delete Motor Pool Lease Vehicle										
0.00	0	(4,104)	0	(5,781)*	0.00	0	(4,430)	0	(6,239)*	
Total Other Present Law Adjustments										
0.00	(\$127,230)	\$150,676	\$0	\$84,989 *	0.00	(\$127,016)	\$140,410	\$0	\$70,745 *	
Grand Total All Present Law Adjustments				\$283,964 *						\$272,516 *

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 701 - Budget Adjustments - The executive requests the following biennial increases over base operating expenses to:

- o Annualize operating expenses for positions held vacant during the base year - \$74,150
- o Cover RIF retirement expenses incurred by the division - \$34,000
- o Contract for an imaging system - \$100,000
- o Cover communications expenses for the automated accounting and reporting system (AARS) - \$85,850
- o Re-establish the vehicle replacement cycle (four vehicles in fiscal 2004 and three vehicles in fiscal 2005) - \$98,000
- o Cover out-of-country travel for the possibility of investigating license applications from foreign manufacturers of gambling devices. In the past, the division has not spent the authority if applications are not received. Every license applicant reimburses the division for the cost of each investigation including travel - \$30,000

The decision package also includes continuation of the general fund reductions ordered by the Governor under 17-7-140, MCA, and the August 2002 Special Session of \$83,600 for the biennium. The reductions include reducing the appropriation for AARS and an across-the-board 1.0 percent reduction in general fund.

LFD COMMENT

The 2001 legislature appropriated \$3.3 million for the Gambling Control Division in fiscal 2002. Due to a shortfall in the gambling state special revenue account, the division cut back personnel and operating expenses for total expenditures of \$2.9 million. The 2001 legislature approved state special revenue for an imaging system, but the system was not purchased due to the fund shortfall.

To meet vacancy savings requirements and respond to shortfalls in collections of gambling state special revenue in the 2003 biennium, four positions were held vacant for the entire base year and five other positions were vacant for an extended period. The division also offered voluntary early retirement because of the shortfall that 4.00 FTE accepted. This decision package includes \$17,000 per year for the division's share of the RIF retirement for these FTEs that has been amortized over 10 years.

**LFD
COMMENT
(continued)**

The base year operating budget is \$195,000 less than fiscal 2001. This decision package would bring the operating budget to a level that would be approximately \$50,000 less than fiscal 2001. While the department has experienced some efficiencies in the combined application process for liquor and gambling licenses, the department states that without the increase in the operating budget, the following functions will be impacted: 1) field investigations and investigation of complaints or suspected illegal activity would be delayed; 2) higher paid staff would continue to assume the vital responsibilities of the administrative officer position. The remaining responsibilities of the position, such as training and information sessions for licensees, would not be undertaken; and 3) AARS positions will be needed as the system is implemented

DP 702 - Maintain AARS at Current Level - The executive requests a reduction in contracted services because division FTE are performing AARS tasks that were originally to be performed through the contract with the vendor. An operating plan change was made in July 2002 to move funds from contracted services to personal services. Therefore, the FTE are funded in the personal services adjusted present law base and contract services should be reduced.

DP 704 - Delete Motor Pool Lease Vehicle - The division decided to no longer lease a vehicle from the state motor pool. A biennial decrease of \$12,020 is requested.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 703 - Reduce FTE										
07	(3.00)	0	(102,434)	0	(144,273)*	(3.00)	0	(103,031)	0	(145,114)*
DP 705 - Additional Reduction in AARS										
07	0.00	(107,350)	0	0	(107,350)	0.00	(107,350)	0	0	(107,350)
Total	(3.00)	(\$107,350)	(\$102,434)	\$0	(\$251,623)*	(3.00)	(\$107,350)	(\$103,031)	\$0	(\$252,464)*

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 703 - Reduce FTE - Because of shortfalls in the gambling state special revenue fund, the executive proposes eliminating 3.00 FTE. These positions became vacant in the 2002 biennium and have not been filled. The proposal requires a reduction in the division base in gambling state special revenue and liquor proprietary funds.

DP 705 - Additional Reduction in AARS - The executive requests a biennial reduction of \$214,700 in general fund. These funds are part of the annual \$380,000 general fund budget for the AARS. These funds were the amount the department originally planned to spend on data collection servers. Locations that volunteer to participate in the automated system would now have to purchase these computers to connect to the system.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	161.60	0.00	(7.45)	154.15	0.00	(9.45)	152.15	152.15
Personal Services	4,654,484	523,869	(179,091)	4,999,262	528,411	(250,938)	4,931,957	9,931,219
Operating Expenses	3,849,765	574,878	(443,872)	3,980,771	399,872	(238,696)	4,010,941	7,991,712
Equipment	0	0	0	0	0	0	0	0
Debt Service	155,132	1,289,144	3,900,000	5,344,276	(6,856)	0	148,276	5,492,552
Total Costs	\$8,659,381	\$2,387,891	\$3,277,037	\$14,324,309	\$921,427	(\$489,634)	\$9,091,174	\$23,415,483
General Fund	8,220,327	1,098,747	(622,963)	8,696,111	928,283	(489,634)	8,658,976	17,355,087
State/Other Special	439,054	1,289,144	3,900,000	5,628,198	(6,856)	0	432,198	6,060,396
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$8,659,381	\$2,387,891	\$3,277,037	\$14,324,309	\$921,427	(\$489,634)	\$9,091,174	\$23,415,483

Program Description

The Motor Vehicle Division (MVD), under provision of Title 61 and Title 23, MCA, and certain federal statutes is responsible for:

- Examination and licensure of all drivers
- Creation and maintenance of permanent driver and motor vehicle records
- Titling and registration of all vehicles including boats, snowmobiles and ATVs
- Inspection and verification of vehicle identification numbers
- Licensure and compliance control of motor vehicle dealers and manufacturers
- Providing motor voter registration

Program Narrative

Department of Major Budget Highlights	
○ Increase of \$0.9 million general fund requested for 2005 biennium over the base budget ○ Increase of \$6.1 million total funds requested for 2005 biennium over the base budget ○ \$3.9 million requested for motor vehicle automation in new proposal ○ \$1.3 million requested for debt service on titling system project ○ Eliminate 9.45 general funded FTE request	
Major LFD Issues	
○ Service reductions due to loss of FTE	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Motor Vehicle Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 8,220,327	94.9%	\$ 8,696,111	60.7%	\$ 8,658,976	95.2%
02225 Mvd Inform Tech System Hb577	6,856	0.1%	1,296,000	9.0%	-	-
02422 Highways Special Revenue	432,198	5.0%	432,198	3.0%	432,198	4.8%
02798 Mv Reg, Automation, And DI Upgrade	-	-	3,900,000	27.2%	-	-
02976 Driver Rehab & Improvement Pr	-	-	-	-	-	-
03166 Mesp-Truck Inspection Program	-	-	-	-	-	-
03801 Dept Of Justice-Misc Grants	-	-	-	-	-	-
Grand Total	\$ 8,659,381	100.0%	\$ 14,324,309	100.0%	\$ 9,091,174	100.0%

The Motor Vehicle Division is supported by approximately 95.0 percent general fund. The division has historically been funded with general fund. Because of the division connection to the motoring public, highways special revenue account (HSRA) funds have at times been included as a funding source to relieve the general fund. In fiscal 1998, HSRA funds of \$403,056 were appropriated to MVD through HB 2 and the pay plan bill. In the August 2002 Special Session, a one-time appropriation of \$6.6 million in highways state special revenue was used to replace general fund in fiscal 2003.

LFD COMMENT

If the legislature chooses to provide policy guidance for the Department of Transportation to minimize the use of state funds, thereby minimizing the use of the highways state special revenue and improving the structural balance of the account, account funds could be used to support other constitutionally allowable uses. Enforcement of highway safety and driver education are two of the allowable uses of the restricted highway state special revenue.

In the August 2002 Special Session, the legislature chose to use non-restricted highway state special revenue funds, so there was no question of the constitutionality. However, there are functions performed in the Motor Vehicle Division that appear to meet the criteria for the restricted funds, such as examination and licensure of drivers. For more detailed information on the highway state special revenue account, see "Agency Issues" for the Department of Transportation.

In addition, if the legislature chooses to appropriate highway state special revenue at the LFD suggested levels in the Highway Patrol Division (see LFD Comments in the Highway Patrol Division - "Increase Above Inflation" and "Lower Percent Increase for Vehicles"), the savings of \$415,000 in highway state special revenue could be used to replace general fund for functions in this division that meet the constitutional requirements.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				687,671					692,391
Vacancy Savings				(213,694)					(213,873)
Inflation/Deflation				121,081					130,931
Fixed Costs				2,305					12,376
Total Statewide Present Law Adjustments				\$597,363					\$621,825
DP 1201 - Motor Vehicle Operations Adjustments									
0.00	452,135	0	0	452,135	0.00	253,811	0	0	253,811
DP 1202 - Driver Licensing Operations Adjustments									
0.00	49,249	0	0	49,249	0.00	52,647	0	0	52,647
DP 1203 - HB 577 Debt Payments									
0.00	0	1,289,144	0	1,289,144	0.00	0	(6,856)	0	(6,856)
Total Other Present Law Adjustments									
0.00	\$501,384	\$1,289,144	\$0	\$1,790,528	0.00	\$306,458	(\$6,856)	\$0	\$299,602
Grand Total All Present Law Adjustments				\$2,387,891					\$921,427

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1201 - Motor Vehicle Operations Adjustments - The executive requests base budget adjustments for the Title and Registration Bureau (TRB) in the areas of printing, postage and freight, travel, leased vehicles, and telephone system maintenance. Total general fund of \$705,946 is requested for the biennium. This request includes \$251,415 for the new license plate issue mandated in fiscal 2004.

The following major adjustments are requested for the new plate issue in fiscal 2004:

- Contracted services to process more than 120,000 new plate renewal notice cards for personalized license plates in 2004 and to back up staff who will be making deliveries of the new general issue license plates - \$18,700
- Printing costs for new plate renewal notice cards, decals, and special license plate envelopes - \$184,640
- Gasoline increase for the truck that will deliver the majority of the new plates to counties - \$1,375
- Postage and UPS costs due to the new plate issue - \$34,200
- Lease of a heavy duty delivery truck with a lift to deliver the new license plates - \$12,500

Other present law adjustments not related to the new plate issue include (biennial amounts):

- Overtime costs to manage workloads (this represents a reduction from the amount spent in fiscal 2002. Approximately \$113,000 was expended in the prior two year period) - \$90,000
- Increased cost of printing license plate decals and a 4.0 percent increase in printing of forms due to the increased paper costs - \$209,140
- Increased postage and UPS costs. In January 2002, the US Postal Service discontinued the discounts previously provided for the mailing of mail renewal notices and motor vehicle transactions. This change has created a 30.0 percent increase in postage costs that is annualized for the full year - \$74,650
- Travel costs to deliver license plates to the counties - \$1,300
- Telephone equipment maintenance contract costs. A telephone system was destroyed by a lightning strike in July 2002. The two-year warranty on the new system will expire in July 2004. The maintenance contract would support the system once the warranty has expired - \$4,716

LFD ISSUE

One Time Only

If the legislature approves all of the increases in this decision package for the new issue of license plates, \$251,315 in fiscal 2004 should be a separate line item and designated as one-time-only, since it should not continue in the base.

LFD COMMENT

Legislation is being proposed by the department to require only one decal for all motor vehicle registrations and to delay the issue of new plates from 2004 to 2006. See new proposals 8001 and 8002.

DP 1202 - Driver Licensing Operations Adjustments - The executive requests present law adjustments of approximately \$102,000 in general fund for the biennium to meet ongoing driver licensing and driver control responsibilities. The major adjustments include increases for overtime, computer processing services, motor pool leased vehicles, and vehicle maintenance and a reduction for rent.

DP 1203 - HB 577 Debt Payments - A biennial appropriation of \$1,296,000 in state special revenue is requested for the 2005 biennium for HB 577 debt payments. The 2001 legislature passed HB 577 that allowed the department to borrow up

to \$4.5 million from the Board of Investments to finance the first phase of a Motor Vehicle System. Phase I was to overhaul the titling system by determining, designing, and implementing the best practices for the new system for motor vehicle titling processes. A 10 year repayment schedule for this debt was established utilizing a state special revenue account funded through a \$4 increase in lien filing fees. The revenues were projected based upon 157,324 paid lien filing fees received in calendar 2000 plus a conservative annual growth rate of 0.75 percent.

The 2001 legislature authorized a biennial appropriation of \$960,000 in state special revenues for debt service and system acquisition needs. The first payment of interest of \$6,856 is reflected in the base budget and this decision package will bring the biennial appropriation to a total of \$1,296,000.

**LFD
COMMENT**

The fiscal note for this bill projected revenues of \$967,700 in the 2003 biennium. Revenues totaled approximately \$186,000 in fiscal 2002 (this represents only one-half of a year of collections as the increased fee became effective January 1, 2002). The Revenue and Taxation Committee projects revenues of \$763,000 for fiscal 2004 and \$782,000 for fiscal 2005.

New Proposals

Program	Fiscal 2004					Fiscal 2005					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 1205 - Eliminate 9.45 FTE	12	(7.45)	(179,091)	0	0	(179,091)	(9.45)	(276,904)	0	0	(276,904)
DP 1206 - Reduction of Motor Pool Vehicles	12	0.00	(40,000)	0	0	(40,000)	0.00	(40,000)	0	0	(40,000)
DP 8001 - Delay Requirement for New License Plates	12	0.00	(251,415)	0	0	(251,415)	0.00	0	0	0	0
DP 8002 - Reduce Number of Decals	12	0.00	(152,457)	0	0	(152,457)	0.00	(172,730)	0	0	(172,730)
DP 8003 - Motor Vehicle Registration Automation	12	0.00	0	3,900,000	0	3,900,000	0.00	0	0	0	0
Total	(7.45)	(\$622,963)	\$3,900,000	\$0	\$3,277,037 *	(9.45)	(\$489,634)	\$0	\$0	(\$489,634)*	

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1205 - Eliminate 9.45 FTE - The executive requests elimination of 7.45 FTE in fiscal 2004 and an additional 2.00 FTE in fiscal 2005, for a total of 9.45 FTE. The positions proposed for elimination include two administrative support positions, approximately five licensing/permitting clerks, and two compliance specialists. The 2.00 additional FTE proposed for elimination in fiscal 2005 are dealer compliance positions that are currently filled. By delaying the reduction of the 2.00 FTE until 2005, the division will have time to implement changes and reallocate within the Title and Registration Bureau the duties performed by these positions.

**LFD
COMMENT**

Service reductions are likely to occur in titling and lien filing transactions for boats, snowmobiles, and ATVs. Legislation that changes statute to allow lenders to file their security interest using Uniform Commercial Code Secured Transaction filings with the Secretary of State's Office, as provided in Title 30, Chapter 9A, MCA, could mitigate this impact. Closure of the Billings West driver's license office has already occurred and staff was transferred to the Billings Central location. Additionally, the driver licensing services schedule will be reduced approximately 50.0 percent in Libby. Annually approximately 8,900 driver licensing suspension and 5,100 driver license re-instatement transactions are processed as a result of non-payment of fines or non-appearance for court dates (non-pay/appear). Backlogs for processing suspensions and re-instatements could increase. Beginning in fiscal 2005, field services for dealer compliance and Vehicle Identification Number (VIN) and odometer fraud investigations will be reduced. Administrative staff at the Title and Registration Bureau will rely on the Highway Patrol and local law enforcement to assist on-site investigations. The reduction cannot take place until fiscal 2005 to allow for a transition period to complete active investigations, coordinate with local law enforcement, and reallocate duties within the bureau.

DP 1206 - Reduction of Motor Pool Vehicles - This budget reduction will be achieved through reducing eight motor pool vehicles in the Field Operations Bureau.

**LFD
COMMENT**

The division plans to replace some of the motor pool vehicles with used highway patrol cars.

DP 8001 - Delay Requirement for New License Plates - Legislation (LC 162) will be presented to delay the new general issuance of license plates from calendar year 2004 to year 2006. The general fund savings for this biennium would be \$251,415.

**LFD
COMMENT**

Additional savings would be seen in the Department of Corrections of \$3.6 million in the 2005 biennium if this legislation is passed.

**LFD
ISSUE**

Contingent on Passage of Legislation

The legislature may want to delay action on this decision package until the legislation has been passed and approved.

DP 8002 - Reduce Number of Decals - Legislation will be presented to require one month and one expiration year decal only on the rear license plate for motor vehicles. The legislation would also require only one decal to be issued for each recreational vehicle including boats, snowmobiles, and ATV's. This results in a biennial savings of approximately \$0.3 million.

**LFD
ISSUE**

Contingent on Passage of Legislation

The legislature may want to delay action on this decision package until the legislation has been passed and approved.

DP 8003 - Motor Vehicle Registration Automation - The executive is requesting funding to complete modernization of the state motor vehicle registration and driver license business processes and computer systems. Phase I of the new system was authorized in HB 577 by the 2001 legislature. Authorization for \$3.9 million in state special revenue funding is requested for debt service on \$20.0 million in bonding that will be requested in separate legislation for Phase II. The annual payment of \$2.2 million would be funded through a \$5 per title transaction fee.

**LFD
COMMENT**

The department states that the general fund that supports the legacy system in the 2005 biennium budget will continue to be needed through the targeted 24-month implementation timeframe as these monies will be used to support the parallel processing of the old and the new system until all functions within the new system are fully operational. Beginning with the 2007 biennium, a revised system support budget will be provided. It is expected that the 2007 biennium request will be greater than the current legacy budget due to the advanced technology requirements, the enhanced skill set acquired by the support staff, and an increased effort to protect the \$20.0 million invested in the new system.

**LFD
ISSUE**

Biennial Appropriation

The debt service in fiscal 2004 will probably be much less than \$2.2 million since only a portion of the \$20.0 million will be borrowed in fiscal 2004. The legislature may want to designate this appropriation as a biennial amount, so the department has the flexibility to use the authority in either year of the biennium.

In addition, the legislature may want to delay action on this decision package until the legislation has been passed and approved.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	272.55	0.00	2.00	274.55	0.00	2.00	274.55	274.55
Personal Services	12,593,945	1,318,351	108,737	14,021,033	1,335,792	108,654	14,038,391	28,059,424
Operating Expenses	4,509,527	125,598	24,846	4,659,971	198,054	24,846	4,732,427	9,392,398
Equipment	1,448,215	179,860	0	1,628,075	317,426	0	1,765,641	3,393,716
Local Assistance	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$18,551,687	\$1,623,809	\$133,583	\$20,309,079	\$1,851,272	\$133,500	\$20,536,459	\$40,845,538
General Fund	1,164,745	2,249	0	1,166,994	38,548	0	1,203,293	2,370,287
State/Other Special	16,614,943	1,574,176	133,583	18,322,702	1,762,134	133,500	18,510,577	36,833,279
Federal Special	771,999	47,384	0	819,383	50,590	0	822,589	1,641,972
Total Funds	\$18,551,687	\$1,623,809	\$133,583	\$20,309,079	\$1,851,272	\$133,500	\$20,536,459	\$40,845,538

Program Description

The Highway Patrol Division (HPD) is responsible for patrolling the highways of Montana, enforcing traffic laws, and investigating traffic crashes. The patrol gives assistance and information to motorists and first aid to those injured in traffic crashes, transports blood and medical supplies in emergency situations, and assists other law enforcement agencies when requested. The patrol provides 24-hour, seven-day-a-week communication and radio dispatch for the Highway Patrol and other state agencies. The Motor Carrier Safety Assistance program (MCSAP) attempts to reduce commercial motor vehicle accidents in the state by participating in the Commercial Vehicle Safety Alliance (CVSA) and its North American Driver/Vehicle Inspection program in all levels of inspections as well as safety review audits.

Program Narrative

Highway Patrol Division Major Budget Highlights	
○ Increase of \$40,797 general fund requested for 2005 biennium over the base budget ○ Increase of \$3.7 million total funds requested for 2005 biennium over the base budget ○	
Major LFD Issues	
○ Base budget may be overstated by \$176,000 for prisoner per diem ○ Lower percent increase for vehicle purchase	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

**Program Funding Table
Highway Patrol Division**

<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 1,164,745	6.3%	\$ 1,166,994	5.7%	\$ 1,203,293	5.9%
02003 Misc Grants And Nrd	-	-	133,583	0.7%	133,500	0.7%
02422 Highways Special Revenue	16,614,943	89.6%	18,189,119	89.6%	18,377,077	89.5%
03166 Mcsap-Truck Inspection Program	771,999	4.2%	819,383	4.0%	822,589	4.0%
03801 Dept Of Justice-Misc Grants	-	-	-	-	-	-
Grand Total	\$ 18,551,687	100.0%	\$ 20,309,079	100.0%	\$ 20,536,459	100.0%

The Highway Patrol Division is funded primarily from the highways state special revenue account, which receives most of its revenue from fuel taxes and gross vehicle weight (GVW) fees. The Motor Carrier Safety Assistance Program is funded with 85.0 percent federal funds from the U.S. Department of Transportation, combined with a 15.0 percent state match. Although the actual match requirement is 20.0 percent, utilizing highway patrol officers to conduct truck inspections for the federal government provides 5.0 percent of the match required. The remainder comes from highways state special revenue funds. General fund was added by the 1999 legislature to fund prisoner per diem and related medical costs.

The HSRA has been experiencing a structural imbalance for several biennia. A committee was established by the 1997 legislature to review the account. Committee recommendations included funding activities within the Department of Justice not directly related to the enforcement of highway safety, such as prisoner per diem, through a source other than the HSRA. The 1999 legislature approved a funding switch of slightly more than \$1.0 million each year from highway state special revenue funds to general fund as a result of the committee recommendations. This account still faces a structural imbalance. For more information, see the Agency Discussion in the Department of Transportation document.

-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				1,109,332					1,127,518
Vacancy Savings				(548,121)					(548,866)
Inflation/Deflation				56,002					79,123
Fixed Costs				(56,173)					(32,074)
Total Statewide Present Law Adjustments				\$561,040					\$625,701
DP 1301 - Base Adjustments Operations									
0.00	26,238	712,955	0	739,193	0.00	62,633	835,356	0	897,989
DP 1302 - Base Adjustments Recruit Training School									
0.00	0	32,110	0	32,110	0.00	0	32,110	0	32,110
DP 1303 - Operating Adjustments MCSAP									
0.00	0	1,572	289,894	291,466	0.00	0	2,373	293,099	295,472
Total Other Present Law Adjustments									
0.00	\$26,238	\$746,637	\$289,894	\$1,062,769	0.00	\$62,633	\$869,839	\$293,099	\$1,225,571
Grand Total All Present Law Adjustments				\$1,623,809					\$1,851,272

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1301 - Base Adjustments Operations - The executive requests an increase of \$1.5 million in highways state special revenue and \$0.1 million in general fund for the biennium. Prisoner per diem is the only item in this budget that is general funded. The following major adjustments comprise the increase (biennial amounts):

- Overtime costs of \$945,100 for uniformed personnel, civilian personnel, and communication system operators (dispatchers). Approximately \$154,000 of the increase requested is for special overtime, which is paid to uniformed personnel for traffic control in the production of movies, DUI Task Force activities, construction zones, and other emergencies. These costs are reimbursed by the "employing" organization
- An increase for gasoline costs. The base budget includes \$460,970 for gasoline plus an inflation adjustment by OBPP that increases that amount by 11.0 percent in fiscal 2004 and 16.0 percent in fiscal 2004. The division requests an additional \$68,740 above the inflated amounts

**LFD
ISSUE**
Increase Above Inflation

The 2001 legislature approved increased funds for gasoline of over \$100,000 each year of the 2003 biennium based on estimates that gasoline costs would increase. Including the increase, the HPD was appropriated approximately \$625,000 each year for gasoline. Fiscal 2002 expenditures for gasoline totaled \$460,970 and the over-appropriated amounts for gas and vehicles (see vehicle discussion below) were used as a state match for a federal grant. The increase requested for the 2005 biennium represents a 21.4 percent increase in gas prices. The legislature may want to approve only the increases for inflation, saving \$68,740 for the biennium.

- Rent increases of office space (headquarters, districts, and detachments), aircraft hangar space, radio shop space, and radio tower sites - \$55,291
- Replace 63 patrol vehicles (one-third of the fleet) each year. Vehicles are surplus when mileage reaches levels between 85,000 and 100,000+. The request anticipates an increase in cost per vehicle of approximately 9.0 percent per year. The MHP spent \$1,311,281 on vehicles in fiscal 2002. The average vehicle cost in fiscal 2002 was \$19,287. The MHP is projecting vehicles to cost \$23,557 in fiscal 2004 and \$25,677 in fiscal 2005 - \$479,180 highways state special revenue

**LFD
ISSUE**
Lower Percent Increase for Vehicle

The division has estimated a 9.0 percent increase each year in its request to the legislature for the past four biennia. Actual costs have only increased an average of less than 2.0 percent each year. On average, the amount appropriated has exceeded expenditures by \$200,000 each year since 1998.

The legislature may want to appropriate an increase of 2.0 percent each year, rather than 9.0 percent, which would save \$346,000 over the biennium (this includes approximately \$24,000 for one pickup each year as was in the base expenditures) and allow those highways state special revenue funds to be appropriated for other purposes. If the legislature approved only the inflation increases for gasoline and appropriated an increase of 2.0 percent each year for vehicles, the savings in highways state special revenue funds could be used to replace approximately \$415,000 general fund for functions in the Motor Vehicle Division that meet the highways state special revenue constitutional criteria.

- Prisoner per diem costs. The division spent \$1,143,358 for approximately 21,357 days of prisoner per diem in fiscal 2002. It is assumed costs will increase by 3.0 percent each year - \$175,700

**LFD
COMMENT**

The base budget may be overstated by \$176,867. At fiscal-year-end 2002, the department accrued \$288,205 for prisoner per diem costs. As of December 4 only \$111,338 of the accrued amount had been expended. If additional invoices totaling \$176,867 are not received for fiscal 2002, the base is overstated. The legislature may want to ask the department to furnish some assurance that the \$176,867 in fiscal 2002 funds will be spent for fiscal 2002 costs, or reduce the request in this decision package by that amount. In addition, the executive recommends continuing special session reductions of approximately \$87,000 of general fund for the biennium.

DP 1302 - Base Adjustments Recruit Training School - The MHP annually conducts a Recruit Training School to train new recruits to fill vacancies. The Recruit Training School consists of 14 weeks of on-campus training and 8 weeks of field training. The increase is necessary due to fewer recruits entering the recruit school in the base year. The MHP is requesting to annualize the cost to provide for 25 recruits per year in the Recruit Training School. A total increase of \$64,220 is requested.

DP 1303 - Operating Adjustments MCSAP - The Motor Vehicle Inspection Bureau is required to perform inspections on commercial motor vehicles and compliance reviews on motor carriers, subject to state and federal regulations. A total increase of \$586,938 is requested for the biennium of which \$582,993 is federal funds and \$3,945 is highways state special revenue funds. Increases are related to salary authority, overtime, and vehicle replacement.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 1304 - Executive Protection										
13	2.00	0	133,583	0	133,583	2.00	0	133,500	0	133,500
Total	2.00	\$0	\$133,583	\$0	\$133,583 *	2.00	\$0	\$133,500	\$0	\$133,500 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1304 - Executive Protection - The executive is requesting spending authority for 2.00 FTE and expenses to provide executive protection for the Governor. The FTE requested are for a grade 16, step 13 and a grade 17, step 13. The MHP is requesting the spending authority in state special funds. The MHP will bill the Governor's Office for services and expenses and will be reimbursed with general fund money from the Governor's budget.

LFD COMMENT

These positions were recruited and hired in the 2003 biennium and were filled as modified positions. This decision package would authorize continued funding of the positions through HB 2 in future biennia. Statute (44-1-104, MCA) states: "The department of justice shall furnish the Governor with automobile transportation upon his request, provided that such transportation shall be limited to travel and transportation of the Governor while on official business of the state." For further discussion, see LFD Issue in the Governor's Office.

LFD ISSUE

Entry Level

These positions are requested at a level higher than market salary. The legislature may want to fund the positions at entry level, which would save over \$40,000 for the biennium.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	74.50	2.00	3.00	79.50	2.00	3.00	79.50	79.50
Personal Services	3,315,464	386,850	115,091	3,817,405	395,705	114,485	3,825,654	7,643,059
Operating Expenses	1,709,536	(45,570)	228,036	1,892,002	(37,330)	213,646	1,885,852	3,777,854
Equipment	18,830	(333)	0	18,497	(333)	0	18,497	36,994
Transfers	0	0	25,000	25,000	0	25,000	25,000	50,000
Debt Service	78,844	0	0	78,844	0	0	78,844	157,688
Total Costs	\$5,122,674	\$340,947	\$368,127	\$5,831,748	\$358,042	\$353,131	\$5,833,847	\$11,665,595
General Fund	3,456,108	282,433	(1,312,819)	2,425,722	295,714	(1,317,773)	2,434,049	4,859,771
State/Other Special	356,722	5,676	1,175,853	1,538,251	6,109	1,179,405	1,542,236	3,080,487
Federal Special	1,309,844	52,838	505,093	1,867,775	56,219	491,499	1,857,562	3,725,337
Total Funds	\$5,122,674	\$340,947	\$368,127	\$5,831,748	\$358,042	\$353,131	\$5,833,847	\$11,665,595

Program Description

The Division of Criminal Investigation (DCI) includes the administration, management, and coordination of criminal investigative services and training performed by the Investigations Bureau, the Narcotics Bureau, the Fire Prevention and Investigation Bureau, and the Law Enforcement Academy Bureau. Investigators conduct criminal investigations of homicide, fraud, robbery, assault, corruption, arson, organized crime, computer crime, dangerous drug activity, and other felony crimes. The division also has specialized criminal investigation units for the following fraud investigations:

- Workers' compensation
- Public assistance
- Medicaid
- Legislative audits

The Fire Prevention and Investigation Bureau is responsible for safeguarding life and property from fire, explosion, and arson through investigative, inspection, and fire code interpretation and enforcement functions. The Montana Law Enforcement Academy provides a professional education and training program in criminal justice for Montana law enforcement officers and other criminal justice personnel. The academy provides an annual curriculum specifically designed to meet the needs of the adult and juvenile criminal justice systems. The Division of Criminal Investigation operates under both state and federal mandates.

Program Narrative

Division of Criminal Investigation Major Budget Highlights	
○	Decrease of \$2.1 million general fund requested for the 2005 biennium over the base budget ○ Eliminate 3.00 general funded FTE and request to fund 1.00 general funded FTE with federal funds ○ Move contracted services money to personal services for 2.00 general funded FTE ○ Fund switch requested to move Law Enforcement Academy from general fund to state special revenue ○ Add 6.00 FTE funded with state special revenue and federal funds
○	Increase of \$1.4 million in total funds requested for the 2005 biennium over the base budget
Major LFD Issues	
○	Determine if dedication of proposed surcharge for academy meets statutory requirements

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table						
Division Of Criminal Investigation						
<u>Program Funding</u>	<u>Base</u>	<u>% of Base</u>	<u>Budget</u>	<u>% of Budget</u>	<u>Budget</u>	<u>% of Budget</u>
	<u>Fiscal 2002</u>	<u>Fiscal 2002</u>	<u>Fiscal 2004</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2005</u>
01100 General Fund	\$ 3,456,108	67.5%	\$ 2,425,722	41.6%	\$ 2,434,049	41.7%
02003 Misc Grants And Nrd	280,926	5.5%	1,460,818	25.0%	1,464,833	25.1%
02079 Fire Protection & Permitting	35,995	0.7%	37,562	0.6%	37,478	0.6%
02143 Drug Forfeitures-State	39,801	0.8%	39,871	0.7%	39,925	0.7%
03051 Welfare Fraud	168,485	3.3%	161,977	2.8%	162,395	2.8%
03187 Bcc Grants To Dept. Of Justice	796,376	15.5%	984,422	16.9%	986,083	16.9%
03801 Dept Of Justice-Misc Grants	344,983	6.7%	721,376	12.4%	709,084	12.2%
Grand Total	<u>\$ 5,122,674</u>	<u>100.0%</u>	<u>\$ 5,831,748</u>	<u>100.0%</u>	<u>\$ 5,833,847</u>	<u>100.0%</u>

General fund is the primary funding source for the Montana Law Enforcement Academy, Fire Prevention and Investigation Bureau, and for general criminal investigations. It also supplies the match for welfare and Medicaid fraud investigations. General fund supports the eastern narcotics investigation effort and provides match for the western effort. Federal funds are the major source of funding for the western narcotic investigation efforts, with a match from the general fund.

The state fund account supports State Fund fraud investigations and prosecutions.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				491,634					500,861
Vacancy Savings				(152,284)					(152,654)
Inflation/Deflation				9,207					12,808
Fixed Costs				(5,347)					(710)
Total Statewide Present Law Adjustments				\$343,210					\$360,305
DP 1801 - Required Public Safety Communicators Courses									
0.00	10,000	0	0	10,000	0.00	10,000	0	0	10,000
DP 1804 - FTE for Maintenance of MLEA									
2.00	(12,263)	0	0	(12,263)	2.00	(12,263)	0	0	(12,263)
Total Other Present Law Adjustments									
2.00	(\$2,263)	\$0	\$0	(\$2,263)	2.00	(\$2,263)	\$0	\$0	(\$2,263)
Grand Total All Present Law Adjustments				\$340,947					\$358,042

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1801 - Required Public Safety Communicators Courses - The executive requests the funding to double the number of Public Safety Communicator basic courses it provides. Since July 2001, all public safety communicators (dispatchers) are required to attend this basic course within one year of hire (7-31-203(2)(b), MCA). This new requirement has increased demand for basic dispatcher training. The division requests a total of \$20,000 in general fund for the 2005 biennium that will be offset by the \$165-per-trainee tuition the division collects and deposits into the general fund.

DP 1804 - FTE for Maintenance of MLEA - The executive requests authority to move the necessary funds from operating expenses to personal services. This allows the academy to hire two custodial FTE to maintain the cleaning of the ten buildings at the academy with no increase in funding. The department states that this will improve the janitorial services at the academy. In addition, this decision package continues special session reductions in operating and equipment totaling \$24,526 for the biennium.

New Proposals		Fiscal 2004				Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 1802 - Eastern Montana Drug Task Force										
18	2.00	0	47,453	142,358	189,811	2.00	0	47,453	142,358	189,811
DP 1803 - High Intensity Drug Traffic Area Funding										
18	1.00	0	0	54,769	54,769	1.00	0	0	54,769	54,769
DP 1805 - Legislative Contract Authority										
18	0.00	0	25,000	0	25,000	0.00	0	25,000	0	25,000
DP 1806 - Homeland Security Program										
18	3.00	0	0	231,890	231,890	3.00	0	0	217,133	217,133
DP 7001 - Eliminate 3 FTE/ 1 FTE Fund Switch										
18	(3.00)	(209,419)	0	76,076	(133,343)	(3.00)	(210,821)	0	77,239	(133,582)
DP 8003 - Fund Switch MLEA Pending Legislation										
18	0.00	(1,103,400)	1,103,400	0	0	0.00	(1,106,952)	1,106,952	0	0
Total	3.00	(\$1,312,819)	\$1,175,853	\$505,093	\$368,127 *	3.00	(\$1,317,773)	\$1,179,405	\$491,499	\$353,131 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1802 - Eastern Montana Drug Task Force - The executive requests state special and federal authority to spend grant monies for one criminal investigator and one administrative support FTE to manage the Eastern Montana Drug Task Force. For the past 15 years, local law enforcement in eastern Montana has managed this grant-funded task force. However, in fiscal 2002 management difficulties prompted the task force to request that DCI assume these management responsibilities.

DP 1803 - High Intensity Drug Traffic Area Funding - The executive requests approval of federal funding authority for one crime analyst that would allow DCI to participate in the Rocky Mountain High Intensity Drug Trafficking Area (HIDTA) program. The mission of the Rocky Mountain HIDTA is to more effectively combat area drug trafficking problems by improving cooperation and coordination among the federal, state, and local law enforcement agencies involved. In 2001, Montana's congressional delegation successfully worked to have Montana included in this federal drug enforcement program. As a HIDTA state, Montana receives \$1 million in federal funding each year to combat methamphetamine production and distribution, and other drug trafficking. For the 2005 biennium, the division requests a total of 1.00 FTE and \$109,538 in federal funding authority. This represents the DCI share of Montana HIDTA funds.

The crime analyst FTE requested will provide investigative/analytical support, track statistical data, develop drug threat assessments, analyze major seizures, and develop and manage a photo-imaging network that permits federal, state, and local jurisdictions to share photographs and biographical data of drug dealers arrested.

LFD ISSUE

One-Time-Only

The legislature may want to designate this decision package as one-time-only so it can be evaluated by the next legislature in tandem with the availability of continued federal funding.

DP 1805 - Legislative Contract Authority - The executive requests a biennial amount of \$50,000 in state special revenue legislative contract authority (LCA). This would allow the division flexibility to spend tuition collected by students attending advanced-skill and specialized courses at the Montana Law Enforcement Academy (MLEA).

DP 1806 - Homeland Security Program - The executive requests federal funding authority for 3.00 FTE to support Montana Homeland Security initiatives. The FTE would include one criminal investigator and two grade 15 crime analysts. Montana is currently not equipped to accurately assess and evaluate potential terrorists and their targets. Montana's shared border with Canada is mostly unsecured and the identities of those crossing the border are unknown to most law enforcement agencies. This request is in anticipation of federal funding to enhance the state intelligence, collection, and analysis capabilities.

**LFD
ISSUE****One-Time-Only**

The legislature may want to designate this decision package as one-time only so it can be evaluated by the next legislature when the availability of continued federal funding is known. Statewide, agencies have requested authority for \$6.7 million in federal funds for the 2005 biennium and 7.00 FTE for Homeland Security.

DP 7001 - Eliminate 3 FTE/ 1 FTE Fund Switch - The executive requests continuation of the reduction ordered by the Governor under 17-7-140, MCA, and the August 2002 Special Session in personal services by eliminating 3.00 FTE. Additional savings in general fund are sought through funding one position with federal funds rather than general fund. The executive requests a decrease in general fund of \$420,240 and an increase in federal funds of \$153,315 for the biennium.

**LFD
COMMENT**

This decision package is part of an overall reduction to the original request of the department. The executive has reduced the program original budget request by \$420,240 general fund for the 2005 biennium to meet the department mandated general fund reduction, based on a continuation of the Governor's fiscal 2003 expenditure reductions and reductions made during the August 2002 Special Session. This reduction represents the division share based on department reallocation of the overall reduction.

The positions being eliminated are two fire marshal deputies and one administrative position. The funding for the grant writer position will switch from general fund to federal funds. The department states that the elimination of the fire marshal deputies will have the greatest impact on rural areas that only have volunteer fire departments. Fewer inspections of buildings would be done in these areas and the division would not be able to provide as many services for fire investigations. The division is exploring the possibility of providing training and certification of rural fire departments, so they are trained to perform fire inspections and investigations.

DP 8003 - Fund Switch MLEA Pending Legislation - The executive supports a fund switch for the academy that would allow moving the funding from general fund to state special revenue funds. The department will present legislation to allow a surcharge on civil and criminal cases in all courts of limited jurisdictions of \$7 that would generate sufficient revenue to offset the current general fund budget. The savings to the general fund for the biennium would be \$2.2 million.

**LFD
COMMENT**

Idaho funds its Peace Officers Standards and Training (POST) Academy in a similar manner with dedicated revenue. A fee of \$6 is paid by each person found guilty of any felony or misdemeanor; or found to have committed an infraction or any minor traffic, conservation, or ordinance violation.

Prior to the 1991 biennium, the Montana Law Enforcement Academy was funded with tuition fees that were dedicated for the academy and motor vehicle fees that were dedicated for the academy. The fees were de-earmarked to the general fund by the Fifty-first Legislature and since that time, general fund has been the primary funding source.

The Judiciary has legislation drafted (LC 167) to repeal the sunset date on the court automation surcharge and double the fee to \$10 to pay for the district court computer system and increase court automation FTE. The current \$5 surcharge applies to defendants in criminal cases, the initiating party in civil and probate cases, and defendants in civil cases. The increases proposed by the Judiciary and Department of Justice would increase the surcharge, in many cases, from \$5 to \$17. For further information, see the LFD Issue for the Judiciary.

**LFD
ISSUE****Dedicated Funds**

One of the statutory provisions (17-1-602(1)(a), MCA) of dedicated funds states: "The person or entity paying the tax, fee, or assessment is the direct beneficiary of the specific activity that is funded by the tax, fee, or assessment, and the tax, fee, or assessment is commensurate with the costs of the program or activity." The legislature may want to request that the department provide verification that the revenue generated from the surcharge directly benefits those paying the fee.

Language Recommendations

The Executive Budget does not include any language recommended for inclusion in HB 2, but the legislature may want to consider the following language.

Legislative Contract Authority

The executive requests legislative contract authority (LCA) in this division. LCA is a device that allows the executive to add spending authority without a budget amendment.

"The appropriation for legislative contract authority is subject to all of the following provisions:

- Legislative contract authority applies only to federal and private funds.
- Legislative contract authority expenditures must be reported on the state accounting records and kept separate from present law operations. In preparing the 2007 biennium Executive Budget, the Office of Budget and Program Planning may not include expenditures from this item in the present law base.
- A report must be submitted by the department to the Legislative Fiscal Analyst following the end of each fiscal year listing legislative contract authority grants received and the amount of expenditures and FTE for each grant."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	21.55	0.00	0.00	21.55	0.00	0.00	21.55	21.55
Personal Services	1,634,822	136,152	(147,634)	1,623,340	214,639	(226,121)	1,623,340	3,246,680
Total Costs	\$1,634,822	\$136,152	(\$147,634)	\$1,623,340	\$214,639	(\$226,121)	\$1,623,340	\$3,246,680
General Fund	1,634,822	136,152	(147,634)	1,623,340	214,639	(226,121)	1,623,340	3,246,680
Total Funds	\$1,634,822	\$136,152	(\$147,634)	\$1,623,340	\$214,639	(\$226,121)	\$1,623,340	\$3,246,680

Program Description

The County Attorney Payroll program pays approximately half of the salary and benefits for Montana's 56 county attorneys, as required by 7-4-2502, MCA. County compensation boards within each county determine county attorney salaries. By law, the state contribution is limited to the general fund amount the legislature appropriates for this program. The state contribution may be less than half of the board-approved salary.

Program Narrative

County Attorney Payroll Major Budget Highlights	
o	Decrease of \$22,964 general fund requested for the 2005 biennium over the base budget
Major LFD Issues	
o	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table County Attorney Payroll						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,634,822	100.0%	\$ 1,623,340	100.0%	\$ 1,623,340	100.0%
Grand Total	\$ 1,634,822	100.0%	\$ 1,623,340	100.0%	\$ 1,623,340	100.0%

The County Attorney Payroll Program is entirely funded by the general fund, as required by 7-4-2502, MCA.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				195,711					274,198
Vacancy Savings				0					0
Total Statewide Present Law Adjustments				\$195,711					\$274,198
DP 1901 - County Attorney Pay									
0.00	(59,559)	0	0	(59,559)	0.00	(59,559)	0	0	(59,559)
Total Other Present Law Adjustments									
0.00	(\$59,559)	\$0	\$0	(\$59,559)	0.00	(\$59,559)	\$0	\$0	(\$59,559)
Grand Total All Present Law Adjustments				\$136,152					\$214,639

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1901 - County Attorney Pay - The executive requests a biennial reduction of \$119,118 general fund for county attorney payroll. Statute requires one-half of County Attorney salaries to be paid from the state treasury. The Fifty-seventh Legislature changed the statute so the salaries are set annually by county compensation boards and limited the state share to the amount appropriated. The amount requested is an estimate of what the salaries will be for the next biennium.

LFD COMMENT

County attorneys are supported through several different avenues by the Department of Justice. The County Prosecutor Services Division provides special prosecution assistance to counties in the prosecution and disposition of major felonies and in cases in which county attorneys or city attorneys have conflicts of interest. This division also coordinates training and continuing legal education for county attorneys, city attorneys, and law enforcement personnel. The Child Protection Unit assists county attorneys in handling child protection cases and other legal matters in the district courts. The County Attorney payroll program pays half of the salary and benefits of the 56 county attorneys with the provision that the department "is not obligated to provide more than one-half of the salary of a county attorney based on the amount included in the department's budget and appropriated for that purpose" [17-7-112(2)(b), MCA]. The table below shows the amount of Department of Justice general fund expenditures in fiscal 2002 that supported county attorneys.

The state contribution to county attorney salaries has increased an average of 3.3 percent each fiscal year from 1996 to 2002. The amount requested for fiscal 2004 represents a 3.8 percent increase from the fiscal 2003 appropriation and the fiscal 2005 request represents an 8.4 percent increase from the fiscal 2003 appropriation. If the legislation approves NP 1902, the amount requested for the 2005 biennium represents a 1.8 percent reduction from fiscal 2002 expenditures and a 5.0 percent reduction from the amount appropriated for fiscal 2003.

Justice Support of County Attorneys General Fund Only		
	2002	
	FTE	Expenditures
County Prosecutor Services	5.00	\$247,750
Child Protection Unit	6.00	233,193
County Attorney Payroll	22.05	1,634,822
Total	33.05	\$2,115,765

New Proposals

Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General	State Special	Federal Special	Total Funds	General	State Special	Federal Special	Total Funds	
DP 1902 - Reductions in Personal Services										
19	0.00	(147,634)	0	0	(147,634)	0.00	(226,121)	0	0	(226,121)
Total	0.00	(\$147,634)	\$0	\$0	(\$147,634)*	0.00	(\$226,121)	\$0	\$0	(\$226,121)*

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1902 - Reductions in Personal Services - The executive requests a biennial reduction of \$373,755 general fund for the 2005 biennium. This reduction offsets an increase in budgeted amounts for 50.0 percent of county attorney salaries that should not have been rolled forward automatically.

**LFD
COMMENT**

The present law increase of \$195,711 for fiscal 2004 and \$274,198 for fiscal 2005 for county attorney salaries was inadvertently included in the adjusted base amount, rather than separating it out as a separate present law decision package. This decision package offsets the adjusted base and the reduction in PL 1901 actually takes the amount appropriated for county attorney salaries below the base budget.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	15.00	0.00	0.00	15.00	0.00	0.00	15.00	15.00
Personal Services	563,937	94,281	0	658,218	94,500	0	658,437	1,316,655
Operating Expenses	125,247	50,511	0	175,758	(4,562)	0	120,685	296,443
Total Costs	\$689,184	\$144,792	\$0	\$833,976	\$89,938	\$0	\$779,122	\$1,613,098
General Fund	294,457	59,992	(11,610)	342,839	36,656	(11,610)	319,503	662,342
State/Other Special	380,865	81,836	12,150	474,851	51,425	12,150	444,440	919,291
Proprietary	13,862	2,964	(540)	16,286	1,857	(540)	15,179	31,465
Total Funds	\$689,184	\$144,792	\$0	\$833,976	\$89,938	\$0	\$779,122	\$1,613,098

Program Description

The Central Services Division provides the administrative, personnel, budgetary, accounting, and fiscal support for the Department of Justice. The program also administers the County Attorney Payroll.

Program Narrative

Central Services Division Major Budget Highlights	
○ Increase of \$72,428 general fund requested for the 2005 biennium over the base budget ○ Increase of \$234,730 in total funds requested for the 2005 biennium over the base budget ○	
Major LFD Issues	
○ None	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Central Services Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 294,457	42.7%	\$ 342,839	41.1%	\$ 319,503	41.0%
02003 Misc Grants And Nrd	-	-	27,000	3.2%	27,000	3.5%
02074 Gambling License Fee Account	41,582	6.0%	35,627	4.3%	32,308	4.1%
02422 Highways Special Revenue	339,283	49.2%	412,224	49.4%	385,132	49.4%
06500 Agency Legal Services	13,862	2.0%	16,286	2.0%	15,179	1.9%
Grand Total	\$ 689,184	100.0%	\$ 833,976	100.0%	\$ 779,122	100.0%

The Central Services Division (CSD) is funded by an allocation from the four major funds that support the Department of Justice, in proportion to total budgeted costs.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				128,100					127,871	
Vacancy Savings				(27,683)					(27,673)	
Inflation/Deflation				2,220					2,224	
Fixed Costs				49,453					(5,624)	
Total Statewide Present Law Adjustments				\$152,090					\$96,798	
DP 7001 - On-going Special Session Reductions	0.00	(7,298)	0	0	(7,298)	0.00	(6,860)	0	0	(6,860)
Total Other Present Law Adjustments	0.00	(\$7,298)	\$0	\$0	(\$7,298)	0.00	(\$6,860)	\$0	\$0	(\$6,860)
Grand Total All Present Law Adjustments				\$144,792					\$89,938	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7001 - On-going Special Session Reductions - The executive requests continuing the reductions approved during the August 2002 Special Session of \$14,158 general fund for the biennium.

LFD COMMENT

This decision package is part of an overall reduction to the department original request. The executive has reduced the program original budget request to meet the department mandated general fund reduction, based on reductions made during the August 2002 Special Session. This reduction represents the division share based on the department reallocation of the overall reduction. The reductions are comprised of the pay plan reduction, reductions general fund office supplies, and a 1.0 percent across-the-board general fund reduction.

New Proposals										
Fiscal 2004					Fiscal 2005					
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 2804 - Fund Switch										
28	0.00	(11,610)	12,150	0	0 *	0.00	(11,610)	12,150	0	0 *
Total	0.00	(\$11,610)	\$12,150	\$0	\$0 *	0.00	(\$11,610)	\$12,150	\$0	\$0 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 2804 - Fund Switch - The executive requests replacing general fund of \$23,220 for the 2005 biennium with state special revenue authority. In the past, not all personal services expenditures have been reflected for this division, as costs covered by the Natural Resource Damage program funding have been abated.

LFD COMMENT

This decision package replaces general fund and various state special revenue funds with Natural Resource Damage program funding. Instead of allocating out the reductions in proportion to all the funding sources, 100.0 percent of the state special revenue reduction was mistakenly taken from the gambling license fee account. If the legislature approves this decision package, the decision should be based on the following yearly fund reductions:

- 11,610 general fund
- \$1,633 gambling license fee account 02074
- \$13,217 highway state special revenue account 02422
- \$540 proprietary funds account 06500

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	46.00	0.00	3.00	49.00	0.00	3.00	49.00	49.00
Personal Services	1,978,408	148,380	101,679	2,228,467	146,751	101,416	2,226,575	4,455,042
Operating Expenses	1,346,555	1,357	68,116	1,416,028	9,040	68,116	1,423,711	2,839,739
Equipment	6,767	(53,579)	0	(46,812)	(53,579)	0	(46,812)	(93,624)
Transfers	0	0	0	0	0	0	0	0
Debt Service	527,303	0	0	527,303	0	0	527,303	1,054,606
Total Costs	\$3,859,033	\$96,158	\$169,795	\$4,124,986	\$102,212	\$169,532	\$4,130,777	\$8,255,763
General Fund	2,900,485	112,305	(120,794)	2,891,996	118,721	(120,839)	2,898,367	5,790,363
State/Other Special	768,893	0	290,589	1,059,482	0	290,371	1,059,264	2,118,746
Federal Special	179,456	(16,147)	0	163,309	(16,509)	0	162,947	326,256
Proprietary	10,199	0	0	10,199	0	0	10,199	20,398
Total Funds	\$3,859,033	\$96,158	\$169,795	\$4,124,986	\$102,212	\$169,532	\$4,130,777	\$8,255,763

Program Description

The Justice Information Technology Services Division provides a full range of information technology and criminal justice services for the Department of Justice including:

- System development and maintenance of:
 - The motor vehicle titling and registration system
 - The driver license and history system
 - The criminal history record information system
 - The Sexual and Violent Offender Registry
- Support for the Department of Justice internal computers and systems
- Identification services for the criminal justice community through criminal history record checking and fingerprint processing
- System development and support for the Criminal Justice Information Network (CJIN)

CJIN links law enforcement/criminal justice agencies with information sources at local, state, and national levels by interfacing with the National Law Enforcement Telecommunications System, the National Crime Information Center (NCIC), and numerous State of Montana files.

Program Narrative

Information Technology Services Division	
Major Budget Highlights	
○	Reduction of \$10,607 general fund requested for the 2005 biennium from the base budget
○	Increase of \$537,697 in total funds requested for the 2005 biennium over the base budget ○ 3.00 FTE funded by new fee requested ○ Fund 67 percent of 6.00 current general funded FTE with new fee being requested
Major LFD Issues	
○	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Information Technology Svcs Division

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 2,900,485	75.2%	\$ 2,891,996	70.1%	\$ 2,898,367	70.2%
02003 Misc Grants And Nrd	4,772	0.1%	4,772	0.1%	4,772	0.1%
02016 Criminal Justice Info Network	636,734	16.5%	636,734	15.4%	636,734	15.4%
02074 Gambling License Fee Account	36,686	1.0%	36,686	0.9%	36,686	0.9%
02422 Highways Special Revenue	90,701	2.4%	90,701	2.2%	90,701	2.2%
02797 Cjis - Background Checks	-	-	290,589	7.0%	290,371	7.0%
03051 Welfare Fraud	4,797	0.1%	4,797	0.1%	4,797	0.1%
03166 Mcsap-Truck Inspection Program	-	-	-	-	-	-
03187 Bcc Grants To Dept. Of Justice	171,112	4.4%	154,965	3.8%	154,603	3.7%
03801 Dept Of Justice-Misc Grants	3,547	0.1%	3,547	0.1%	3,547	0.1%
06500 Agency Legal Services	10,199	0.3%	10,199	0.2%	10,199	0.2%
Grand Total	\$ 3,859,033	100.0%	\$ 4,124,986	100.0%	\$ 4,130,777	100.0%

General fund is the primary funding source for the Information Technology Services Division. Fees generated by the Criminal Justice Information Network (CJIN) partially support the operating costs of the CJIN network, as do some federal funds. In fiscal 2002, fees of \$532,045 were collected from users comprised of state agencies, cities, counties, and federal agencies.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				265,267					263,552
Vacancy Savings				(89,746)					(89,660)
Inflation/Deflation				5,734					6,233
Fixed Costs				3,383					10,567
Total Statewide Present Law Adjustments				\$184,638					\$190,692
DP 7001 - On-going Special Session Reductions	0.00	(88,480)	0	0	(88,480)	0.00	(88,480)	0	0
Total Other Present Law Adjustments	0.00	(\$88,480)	\$0	\$0	(\$88,480)	0.00	(\$88,480)	\$0	(\$88,480)
Grand Total All Present Law Adjustments				\$96,158					\$102,212

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7001 - On-going Special Session Reductions - The executive requests continuation of the August 2002 Special Session reductions of \$176,960 general fund for the biennium.

**LFD
COMMENT**

This decision package is part of an overall reduction to the department original request. The executive has reduced the program original budget request based on a continuation of the reductions made during the August 2002 Special Session. This reduction represents the division share based on the department reallocation of the overall reduction. The decrease is comprised of reductions to: the pay plan, general fund office supplies, general fund equipment, and a 1.0 percent across-the board reduction.

New Proposals

Program	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 8001 - Criminal Justice Information System FTE										
29	3.00	(120,794)	290,589	0	169,795	3.00	(120,839)	290,371	0	169,532
Total	3.00	(\$120,794)	\$290,589	\$0	\$169,795 *	3.00	(\$120,839)	\$290,371	\$0	\$169,532 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 8001 - Criminal Justice Information System FTE - The executive requests 3.00 new FTEs funded by a state special revenue account being proposed in separate legislation. These positions include 2.00 FTE fingerprint technicians and 1.00 FTE unit supervisor, as well as contracted services for an attorney. Proposed legislation requests a charge commensurate with the cost of performing name-based background checks. In addition, a request for a fund switch, based on the same legislation, will replace 67.0 percent of general fund (approximately \$241,600 for the biennium) for 6.00 FTE with revenue generated by this legislation.

**LFD
COMMENT**

Prior to the summer of 2002, the fee charged for name-based background checks was \$5 and \$8 for a fingerprint-based check. The name-based fee was raised from \$5 to \$8 as a result of the August 2002 Special Session and the reductions ordered under 17-7-140, MCA. The legislation proposed by the department and approved by the executive will dedicate the revenue from these fees to cover the costs of background checks and replace general fund.

**LFD
ISSUE**

The legislature may want to delay action on this decision package until the legislation has been passed and approved.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	24.50	1.00	1.00	26.50	1.00	1.00	26.50	26.50
Personal Services	1,356,894	142,712	46,438	1,546,044	144,499	46,332	1,547,725	3,093,769
Operating Expenses	1,064,738	6,909	4,360	1,076,007	20,878	3,010	1,088,626	2,164,633
Equipment	118,803	(35,790)	0	83,013	(34,440)	0	84,363	167,376
Transfers	0	0	0	0	0	0	0	0
Debt Service	4,566	0	0	4,566	0	0	4,566	9,132
Total Costs	\$2,545,001	\$113,831	\$50,798	\$2,709,630	\$130,937	\$49,342	\$2,725,280	\$5,434,910
General Fund	2,156,769	58,823	0	2,215,592	76,035	0	2,232,804	4,448,396
State/Other Special	303,204	0	0	303,204	0	0	303,204	606,408
Federal Special	85,028	55,008	50,798	190,834	54,902	49,342	189,272	380,106
Total Funds	\$2,545,001	\$113,831	\$50,798	\$2,709,630	\$130,937	\$49,342	\$2,725,280	\$5,434,910

Program Description

The Forensic Science Division, which includes the State Crime Lab in Missoula and the State Medical Examiner, provides for a statewide system of death investigation, forensic science training, and scientific criminal investigation and analysis for specimens submitted by law enforcement officials, coroners, and state agencies. The division tests firearms, toolmarks, hair, fiber, drugs, blood, body fluids, and tissues. The laboratory also analyzes blood and urine samples in connection with driving under the influence of alcohol or drugs (DUI) and provides the certification, maintenance, and training of all law enforcement personnel on breath testing instruments.

Program Narrative

Forensic Science Division Major Budget Highlights	
○ Increase of \$134,858 general fund requested for the 2005 biennium over the base budget ○ Increase of \$344,908 in total funds requested for the 2005 biennium over the base budget ○ 2.00 federal funded FTE requested	
Major LFD Issues	
○ None	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Forensic Science Division						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 2,156,769	84.7%	\$ 2,215,592	81.8%	\$ 2,232,804	81.9%
02034 Earmarked Alcohol Funds	303,204	11.9%	303,204	11.2%	303,204	11.1%
03187 Bcc Grants To Dept. Of Justice	85,028	3.3%	140,036	5.2%	139,930	5.1%
03801 Dept Of Justice-Misc Grants	-	-	50,798	1.9%	49,342	1.8%
Grand Total	\$ 2,545,001	100.0%	\$ 2,709,630	100.0%	\$ 2,725,280	100.0%

The Forensic Science Division is funded primarily from the general fund. The division receives approximately \$300,000 annually from the earmarked alcohol tax for laboratory testing and intoxilizer equipment repair, which is done at the lab in support of the DUI Enforcement Program.

An on-going federal grant supports two chemists and meets the related operating costs; this grant requires a 25.0 percent general fund match.

**LFD
COMMENT**

An issue in the Department of Public Health and Human Services states that the use of earmarked alcohol tax funds for this purpose does not meet statute. For further information see the narrative for the Department of Public Health and Human Services.

**LFD
ISSUE****Change Statute**

If it is determined that the use of the earmarked alcohol tax funds for the above purpose does not meet statute, the legislature may want to change statute to allow the use of the earmarked alcohol tax funds for laboratory testing and intoxilizer equipment repair.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				178,685					180,659
Vacancy Savings				(61,422)					(61,503)
Inflation/Deflation				4,563					5,727
Fixed Costs				3,067					4,247
Total Statewide Present Law Adjustments				\$124,893					\$129,130
DP 3201 - Latent Print Examiner									
1.00	0	0	55,008	55,008	1.00	0	0	54,902	54,902
DP 3202 - Forensic Laboratory Lease									
0.00	(66,070)	0	0	(66,070)	0.00	(53,095)	0	0	(53,095)
Total Other Present Law Adjustments									
1.00	(\$66,070)	\$0	\$55,008	(\$11,062)	1.00	(\$53,095)	\$0	\$54,902	\$1,807
Grand Total All Present Law Adjustments				\$113,831					\$130,937

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions

on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3201 - Latent Print Examiner - The executive requests federal fund authority for a 1.00 FTE latent print examiner and associated operating costs. The division states that an additional examiner would enable the division to reduce a one-year backlog and meet its goal of a four-week turnaround time. In addition, the lengthy turnaround time has created a bottleneck causing criminal justice agencies around the state to wait for the processing of cases.

DP 3202 - Forensic Laboratory Lease - The executive requests an increase of general fund for five months of increased rent. The Forensic Science Division leases space from a private vendor. The Department of Administration entered into a 15-year lease for the current laboratory space on February 1, 2000. This lease allows for a \$1.00 per square foot rent increase five years after the inception of the lease or on February 1, 2005. The lease is for 31,145 square feet. The monthly increase is \$2,595 for five months of fiscal 2005. In addition, the executive requests to continue the special session reductions of \$66,070 general fund in operating, personal services, and equipment for each year of the 2005 biennium.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	
DP 3203 - Chemist										
32	1.00	0	0	50,798	50,798	1.00	0	0	49,342	49,342
Total	1.00	\$0	\$0	\$50,798	\$50,798 *	1.00	\$0	\$0	\$49,342	\$49,342 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 3203 - Chemist - The executive requests federal fund authority for a 1.00 FTE forensic scientist (chemist) funded entirely through the High Intensity Drug Trafficking Area program (HIDTA). The position will work in the chemistry section of the laboratory analyzing solid dosage drugs submitted by law enforcement. The types of drug submissions include illegal street drugs, prescription drugs, tampered products, and animal poisons.

The number of clandestine labs has increased in Montana from three to four per year prior to 1999 to 97 labs in 2002. Because of the increase in numbers and the time involved to analyze, the lab has developed a backlog of cases more than six months old. This FTE would help the lab manage the increase in submissions.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	39.00	0.00	0.00	39.00	0.00	0.00	39.00	39.00
Personal Services	2,002,952	194,730	0	2,197,682	193,056	0	2,196,008	4,393,690
Operating Expenses	543,014	46,716	0	589,730	(66,981)	0	476,033	1,065,763
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$2,545,966	\$241,446	\$0	\$2,787,412	\$126,075	\$0	\$2,672,041	\$5,459,453
State/Other Special	2,533,459	240,171	0	2,773,630	124,948	0	2,658,407	5,432,037
Federal Special	12,507	1,275	0	13,782	1,127	0	13,634	27,416
Total Funds	\$2,545,966	\$241,446	\$0	\$2,787,412	\$126,075	\$0	\$2,672,041	\$5,459,453

Agency Description

The Department of Public Service Regulation (PSR) regulates the public utility and transportation industries. Five commissioners, elected from districts throughout Montana, oversee this program.

Agency Discussion

Public Service Regulation Major Budget Highlights	
○ Increase of 7.2 percent requested for 2005 biennium over the base budget	
Major LFD Issues	
○ Restrict/reduce request for funds to hire consultants	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Public Service Regulation Prog						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02281 Public Service Commission	\$ 2,521,520	99.0%	\$ 2,773,630	99.5%	\$ 2,658,407	99.5%
02398 Universal Access Fund	11,939	0.5%	-	-	-	-
03011 Natural Gas Safety Pgm	12,507	0.5%	13,782	0.5%	13,634	0.5%
Grand Total	\$ 2,545,966	100.0%	\$ 2,787,412	100.0%	\$ 2,672,041	100.0%

The Public Service Regulation Program is funded primarily by a fee that is levied quarterly on regulated companies. The amount raised by the fees must equal the amount appropriated to the commission by the legislature for a particular year. Fees are deposited directly into a state special revenue account (Section 69-1-402, MCA). Fees are based upon a percentage of the gross operating revenue from all activities regulated by the commission within the state for the calendar quarter of operation. Federal funds come from the U.S. Department of Transportation and support the Natural Gas Pipeline Safety Program.

Funding for the Universal Access Program was collected from a surcharge applied to all private corporations involved in the telecommunications industry in Montana. The authority to collect revenue for the Universal Access Program was limited by statute to the 1999 biennium. During the August 2002 Special Session, the legislature passed SB 26 which transferred 10 percent of the fund balance of the Montana Universal Access Program account, on the effective date of the bill, to the general fund and 90 percent to the Department of Public Health and Human Services to provide social services.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	39.00	0.00	39.00	39.00	0.00	39.00	39.00	39.00
Personal Services	2,197,682	0	2,197,682	2,196,008	0	2,196,008	4,156,868	4,393,690
Operating Expenses	589,730	0	589,730	476,033	0	476,033	1,785,159	1,065,763
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$2,787,412	\$0	\$2,787,412	\$2,672,041	\$0	\$2,672,041	\$5,942,027	\$5,459,453
State/Other Special	2,773,630	0	2,773,630	2,658,407	0	2,658,407	5,915,327	5,432,037
Federal Special	13,782	0	13,782	13,634	0	13,634	26,700	27,416
Total Funds	\$2,787,412	\$0	\$2,787,412	\$2,672,041	\$0	\$2,672,041	\$5,942,027	\$5,459,453

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					267,295					265,599
Vacancy Savings					(72,565)					(72,543)
Inflation/Deflation					631					1,952
Fixed Costs					12,904					(1,786)
Total Statewide Present Law Adjustments					\$208,265	\$193,222				
DP 1 - Consultants	0.00	0	76,454	0	76,454	0.00	0	(23,546)	0	(23,546)
DP 2 - Rent Increase/Computer Replacement	0.00	0	(31,416)	82	(31,334)	0.00	0	(31,796)	134	(31,662)
DP 3 - Universal Access Program	0.00	0	(11,939)	0	(11,939)	0.00	0	(11,939)	0	(11,939)
Total Other Present Law Adjustments										
	0.00	\$0	\$33,099	\$82	\$33,181	0.00	\$0	(\$67,281)	\$134	(\$67,147)
Grand Total All Present Law Adjustments					\$241,446	\$126,075				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Consultants - The Public Service Commission requests state special revenue funds for the 2005 biennium, which will be used to hire consultants. The amount requested is the same amount approved by the 2001 legislature. These funds will be used if PSC staff are unable to handle the additional workload or for special projects.

**LFD
ISSUE**

A biennial appropriation of \$100,000 has been appropriated each biennium since 1996 to hire consultants. An average of less than \$8,000 has been spent each year since that time. Statute allows agencies to carry forward 30 percent of reverted funds. It appears that this appropriation is excessive for its intended purpose and has allowed the PSR to routinely use carry-forward funds from these reversions to supplement personal services and operating expenditures. In fiscal 2001, \$56,888 in carry-forward funds was used for personal services costs.

The legislature may want to lower the biennial appropriation to \$50,000 and restrict the appropriation. The restricted appropriation would prevent the funds from being spent for uses other than consultants during the biennia. However, if funds are reverted, the 30 percent carry-forward funds would not be restricted but would be allowed to be spent during the following two years for any purpose that is consistent with the goals and objectives of the agency.

DP 2 - Rent Increase/Computer Replacement - The executive requests state special revenue funds for an increase in the rent contract negotiated by the Department of Administration of \$8,119 in fiscal 2004 and \$13,195 in fiscal 2005. This decision package includes a reduction of the base budget for minor equipment by approximately \$40,000, as only four computers will be replaced in fiscal 2004.

DP 3 - Universal Access Program - During the August 2002 Special Session, the legislature passed SB 26 which transferred 10 percent of the fund balance of the Montana Universal Access account on the effective date of the bill to the general fund and 90 percent to the Department of Public Health and Human Services to provide social services. This decision package removes the expenditures in the base year from the budget.

**LFD
COMMENT**

The Montana Universal Access Program was funded by a temporary surcharge based on the retail revenue for all intrastate telecommunications services in the state. The surcharge was confined to the 1999 biennium and resulted in revenue of approximately \$600,000. Disbursements for the purpose of the program totaled \$66,000 from fiscal years 1998 through 2002. Legislation passed in the August 2002 Special Session disbursed the remaining fund balance of approximately \$657,000.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	1,092.80	0.00	0.00	1,092.80	0.00	0.00	1,092.80	1,092.80
Personal Services	43,498,841	3,883,925	(19,600)	47,363,166	3,935,378	(14,160)	47,420,059	94,783,225
Operating Expenses	47,640,104	7,693,116	(2,975,408)	52,357,812	6,654,104	(566,068)	53,728,140	106,085,952
Equipment	324,500	0	0	324,500	0	0	324,500	649,000
Capital Outlay	50	0	0	50	0	0	50	100
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	8,040,196	(1,000,000)	0	7,040,196	(1,000,000)	0	7,040,196	14,080,392
Transfers	0	0	0	0	0	0	0	0
Debt Service	224,949	0	0	224,949	0	0	224,949	449,898
Total Costs	\$99,728,640	\$10,577,041	(\$2,995,008)	\$107,310,673	\$9,589,482	(\$580,228)	\$108,737,894	\$216,048,567
General Fund	96,890,254	10,323,427	(2,995,008)	104,218,673	9,328,179	(580,228)	105,638,205	209,856,878
State/Other Special	1,668,004	488,127	0	2,156,131	485,321	0	2,153,325	4,309,456
Federal Special	750,280	(353,227)	0	397,053	(353,227)	0	397,053	794,106
Proprietary	420,102	118,714	0	538,816	129,209	0	549,311	1,088,127
Total Funds	\$99,728,640	\$10,577,041	(\$2,995,008)	\$107,310,673	\$9,589,482	(\$580,228)	\$108,737,894	\$216,048,567

Agency Description

The Department of Corrections (DOC), authorized in section 2-15-2301, MCA, is directed in section 53-1-201, MCA, to "utilize at maximum efficiency the resources of state government in a coordinated effort to: 1) develop and maintain comprehensive services and programs in the field of adult and youth corrections; and 2) provide for the care, protection, and mental and physical development of youth alleged to be youth in need of supervision or delinquent youth who are referred or committed to the department."

The department's five programs are:

- o Administration and Support Services that consist of the Director's Office (training, internal audit, victims information, policy, and investigation) Centralized Services Division (accounting, budgeting, legal services, human resources, automation technology, statistics) and the administratively attached Board of Pardons
- o Community Corrections that includes probation and parole, adult prerelease programs, adult boot camp, and alcohol treatment facility
- o Secure Custody that includes the Montana State Prison (MSP) in Deer Lodge, the Montana Women's Prison (MWP) in Billings, and contract bed facilities
- o Correctional Enterprises that includes the ranch and prison industries programs
- o Juvenile Corrections Division that includes the Pine Hills Youth Correctional Facility (PHYCF), Riverside Youth Correctional Facility, and Juvenile Community Corrections (juvenile parole officers, placement funds, detention licensing, transition center).

Reorganization

A Juvenile Corrections Division was created to include services provided to youth offenders under one program. In the past, Riverside Youth Correctional Facility, Transition Center, juvenile parole officers, and placement funds were included in the Community Corrections program and Pine Hills Youth Correctional Facility was within the Secure Facilities program. Additionally, the Professional Services Division was reorganized and one senior management positions was eliminated in order to increase efficiencies and affect cost savings.

Supplemental Appropriation Description

Following the reductions ordered under 17-7-140, MCA, and the August 2002 Special Session, the department has a total fund appropriation of \$100.6 million for fiscal 2003. This is \$0.9 million more than fiscal 2002 expenditures. The executive does not include a supplemental amount for the Department of Corrections in HB 3. However, at the beginning of fiscal 2003 the department stated that they were facing a \$9.0 million shortfall. To deal with the shortfall, the department anticipated approving conditional releases for 400 offenders committed to the Department of Corrections

(DOC commits) early in fiscal 2003 (see "Population Reduction" under Agency Issues below). As of December 2, 2002, 310 DOC commits had received a conditional release. This would equate to a savings of approximately \$6.5 million if the 310 were released for the entire year. If the department approves an additional 90 conditional releases by the end of December to reach the 400, another \$0.9 million will be saved. The department will need to generate substantial savings through other means to live within the fiscal 2003 appropriation.

Agency Discussion

Department of Corrections Major Budget Highlights	
o	Increase of \$16.1 million in general fund for the 2005 biennium over the base budget
o	Increase of \$0.5 million in other funds for the 2005 biennium over the base budget
o	Proposed legislation to change statute to delay reissue of license plates
o	Adult populations projected to increase by approximately 3.5 percent each year of the 2005 biennium
Major LFD Issues	
o	Expand the pool of nonviolent offenders eligible for conditional release
o	Review parole criteria and revocation policies
o	Determine if the boot camp is cost effective
o	Fund vocational education/training with proprietary funds
o	Consider changing law to allow only one license plate

2005 Biennium Request

The Office of Budget and Program Planning (OBPP) accepted the department's population projections in developing the 2005 biennium budget with an increase of 3.5 percent in the adult population each year of the biennium. The projected institutional populations are much lower than past years due to the department granting conditional releases (see Agency Issues). In fiscal 2002, the growth of the male institutional population was 7.7 percent and the female institutional population grew 12.0 percent. The following figure shows the growth of the average daily population (ADP) of adults. (The average daily population is calculated by adding the daily number of offenders in a program/facility for the year and dividing that number by the number of days in the year.)

Figure 1

Department of Corrections

ADP Growth

Fiscal Years 1995 through 2005

Facility	1995 Actual	1996 Actual	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Estimated	2004 Projected	2005 Projected
Montana State Prison	1,303	1,320	1,289	1,261	1,288	1,261	1,268	1,319	1,308	1,341	1,376
MSP Expansion Unit	0	68	52	54	0	0	0	0	0	0	0
County Jails & Regional Prisons	18	134	142	204	310	441	455	519	451	463	474
Private Prisons	0	1	224	350	341	307	384	394	412	423	433
Boot Camp	34	24	28	20	30	34	42	44	52	53	55
Prerelease	222	244	258	294	357	413	423	467	495	508	521
WATCH Program (DUI)	0	0	0	0	0	0	0	27	123	126	129
Subtotal Males	1,577	1,791	1,993	2,183	2,326	2,456	2,572	2,770	2,841	2,914	2,988
% Growth	11.76%	13.57%	11.28%	9.53%	6.55%	5.59%	4.72%	7.70%	2.56%	2.56%	2.56%
Montana Women's Prison	53	64	69	71	69	70	71	74	105	134	134
Boot Camp	0	0	0	0	1	3	4	0	0	0	0
Intensive Challenge Program	0	0	0	0	0	0	0	7	7	7	7
County Jails & Regional Prisons	0	1	5	20	16	12	16	22	18	18	18
Private Prisons	0	0	0	4	40	50	61	74	29	0	0
Prerelease	34	43	54	86	87	95	111	115	120	120	120
WATCH Program (DUI)	0	0	0	0	0	0	0	2	15	15	15
Subtotal Females	87	108	128	181	213	230	263	295	294	294	293
% Growth	26.09%	24.14%	18.52%	41.41%	17.68%	7.98%	14.35%	11.98%	-0.18%	-0.16%	-0.18%
Intensive Supervision Program	110	121	156	156	184	194	226	252	271	291	312
% Growth	42.86%	10.00%	28.93%	0.00%	17.95%	5.43%	16.49%	11.50%	7.37%	7.37%	7.37%
Probation & Parole	4,771	4,993	5,176	5,431	5,787	5,963	6,047	6,104	6,264	6,515	6,775
% Growth	0.02%	4.65%	3.67%	4.93%	6.55%	3.04%	1.41%	0.94%	2.62%	4.00%	4.00%
Total Adult ADP	6,545	7,013	7,453	7,951	8,510	8,843	9,108	9,421	9,670	10,014	10,369
% Growth	3.45%	7.15%	6.27%	6.68%	7.03%	3.91%	3.00%	3.43%	2.65%	3.56%	3.54%

The executive requests a general fund budget of \$209.9 million for the 2005 biennium. Requested general fund increases over the base year total \$7.3 million for fiscal 2004 and \$8.8 million for fiscal 2005. As shown in the following figure, the department proposes to address the population projections primarily by increasing expenditures in community corrections at the DUI Unit and the men and women's state prison. The following provides a brief summary of each major change. For a complete discussion of individual adjustments requested within each broad category, see the individual program narratives.

Figure 2
Department of Corrections
General Fund Increases Over Fiscal 2002 Base Expenditures
by Function

	FY 2002 Base Expenditures	FY 2004	FY 2005	Biennium	Percent of Total
<u>Adult Secure Custody</u>					
Montana State Prison	\$27,643,213	\$1,668,431	\$1,711,025	\$3,379,456	21.02%
Montana Womens Prison	2,783,831	1,921,897	1,923,237	3,845,134	23.92%
Contract Beds	<u>18,889,655</u>	<u>(1,232,350)</u>	<u>(488,878)</u>	<u>(1,721,228)</u>	-10.71%
Subtotal	\$49,316,699	\$2,357,978	\$3,145,384	\$5,503,362	34.23%
<u>Juvenile</u>					
Pine Hills School	\$5,520,504	\$790,819	\$798,334	\$1,589,153	9.89%
Riverside Facility	1,212,997	26,617	30,044	56,661	0.35%
Juvenile Placement	7,682,757	(1,000,000)	(1,000,000)	(2,000,000)	-12.44%
Transition Centers	<u>723,350</u>	<u>16,976</u>	<u>20,882</u>	<u>37,858</u>	0.24%
Subtotal	\$15,139,608	(\$165,588)	(\$150,740)	(\$316,328)	-1.97%
<u>Community Corrections</u>					
Pre-Release	\$9,461,291	\$968,061	\$1,166,726	\$2,134,787	13.28%
Boot Camp	1,430,786	17,648	21,792	39,440	0.25%
WATCH (DUI Unit)	706,791	2,239,677	2,312,005	4,551,682	28.31%
Probation & Parole	<u>8,706,444</u>	<u>350,514</u>	<u>406,492</u>	<u>757,006</u>	4.71%
Subtotal	\$20,305,312	\$3,575,900	\$3,907,015	\$7,482,915	46.55%
Outside Medical	\$1,958,365	\$373,544	\$690,714	\$1,064,258	6.62%
Other (including Admin)	\$9,230,083	\$1,075,161	\$1,042,749	\$2,117,910	13.17%
Prison Enterprises	\$940,187	\$111,424	\$112,829	\$224,253	1.39%
Total	<u>\$96,890,254</u>	<u>\$7,328,419</u>	<u>\$8,747,951</u>	<u>\$16,076,370</u>	<u>100.00%</u>

Community Corrections

A general fund increase of \$4.6 million is requested for the WATCH DUI Unit in the 2005 biennium, for total funding of \$6.0 million general fund. The unit became operational in February 2002 and had an average daily population of 29. The unit has 140 beds and is currently full. The increase requested annualizes the operating costs of the unit to operate at capacity.

Men and Women's Prison

The increase of \$3.4 million at Montana State Prison represents the amount needed for personal services that are zero based (overtime, differential pay, etc) and an adjustment for cook/chill meals. Even though the average daily population (ADP) is projected to increase each year of the biennium, the executive did not include additional funding. The increase at Montana Women's Prison is to annualize the expansion from 70 to 205 beds.

Contract Beds

Projections for contract beds in the 2005 biennium are lower than fiscal 2002 resulting in the executive requesting a decrease of \$1.7 million general fund for the 2005 biennium. The decrease in the projected population is a result of: 1) conditional release; 2) completion of the Montana Women's Prison expansion; and 3) opening the WATCH DUI Unit. Faced with increasing populations and a need to stay within the appropriated authority, the department adopted a policy change in late fiscal 2002 to screen inmates committed to the Department of Corrections and determine if they meet department established criteria for conditional release. In addition, the expansion at Montana Women's Prison was completed in the summer of 2002 allowing all female inmates to be moved out of the private prison. Lastly, the opening of the DUI Unit allows offenders convicted of a fourth or subsequent DUI to receive intensive residential treatment for six months, rather than a 13-month prison sentence.

Juvenile Corrections

The overall request for Juvenile Corrections reflects a biennial savings of about \$0.3 million. This is the net of an increase requested to annualize the expansion at the Pine Hills Youth Correctional Facility and a decrease in juvenile

placement funds. The amount available to judicial districts in the 2005 biennium for juvenile placement would be \$2.0 million less than the base budget. In fiscal 2002, approximately \$1.0 million less was spent for juvenile placement than the amount appropriated. The department projects that savings of another \$1.0 million can be realized each year. For additional information, see LFD Issue on juvenile placement funds in the Juvenile Corrections Division.

Inmate Cost Per Day

"Cost per day" is the general term used to describe the average costs for incarcerating an inmate for one day. The inmate cost per day rate is typically calculated by dividing the costs relating to the care and custody of inmates by the total number of inmate days provided during the period from which the costs were incurred. If the legislature changes the projections for the number of offenders in the system from the executive projections, these costs per inmate day can be used to estimate the necessary budget adjustments.

In order to make a comparison of cost per day rates between state correctional institutions or between state-operated and private prison facilities, it would be necessary to consider a number of operating variables, and construction and financing costs. Montana State Prison and Montana Women's Prison are multiple classification facilities with inmates ranging from maximum-security to low-security classification. The costs associated with a facility having multiple level classifications cannot be readily compared to facilities that do not have similar classifications. The same comparison precautions are true with regard to inmate programming. The type and amount of programming available has a direct effect on inmate per day costs, as well as comparison validity.

The following figure presents the direct average daily population costs associated with the adult male and female inmate correctional programs. These costs do not include administration, outside medical, industry training, or debt service. However, they are useful as a budget tool for comparing costs among the various incarceration alternatives. They are calculated simply by dividing the annual general fund program cost by the average daily population and then again by 365 days (366 days in fiscal years 2000 and 2004).

Figure 3 Adult Inmates Direct General Fund Cost Per Day Projected 2005 Biennium						
	Fiscal 2000 ADP Actual	Fiscal 2001 ADP Actual	Fiscal 2002 ADP Actual	Fiscal 2003 ADP Projected	Fiscal 2004 ADP Projected	Fiscal 2005 ADP Projected
Average Daily Population						
Montana State Prison	1,261	1,268	1,319	1,308	1,341	1,376
Montana Women's Prison	70	71	81	141	141	141
Contract Beds	810	916	1,009	881	904	925
Treasure State Correctional Training Center	37	46	44	52	53	55
Residential Alcohol Treatment	0	0	29	138	141	144
Pre-Release	508	534	582	615	628	641
Probation & Parole	6,157	6,273	6,356	6,535	6,806	7,087
Total	8,843	9,108	9,420	9,670	10,014	10,369
Annual General Fund Budget	Actual	Actual	Actual	Appropriated*	Projected	Projected
Montana State Prison	\$21,022,420	\$22,427,850	\$27,643,213	\$27,942,632	\$29,311,644	\$29,354,238
Montana Women's Prison	2,283,210	2,534,108	2,783,831	3,282,085	4,705,728	4,707,068
Contract Beds	15,638,789	17,664,767	18,889,655	15,091,386	17,657,305	18,400,777
Treasure State Correctional Training Center	1,272,086	1,433,303	1,430,786	1,377,861	1,448,434	1,452,578
Residential Alcohol Treatment	0	0	706,791	2,165,633	2,946,468	3,018,796
Pre Release	8,085,162	8,768,797	9,461,291	10,191,520	10,429,352	10,628,017
Probation & Parole & ISP	8,459,613	9,121,096	8,706,444	9,275,635	9,056,958	9,112,936
Total	\$56,761,280	\$61,949,921	\$69,622,011	\$69,326,752	\$75,555,889	\$76,674,410
General Fund Cost Per Inmate Day	Actual	Actual	Actual	Projected	Projected	Projected
Montana State Prison	\$45.55	\$48.46	\$57.42	\$58.53	\$59.72	\$58.45
Montana Women's Prison	\$89.12	\$97.79	\$94.16	\$63.77	\$91.19	\$91.46
Contract Beds	\$52.75	\$52.83	\$51.29	\$46.93	\$53.37	\$54.50
Treasure State Correctional Training Center	\$93.94	\$85.37	\$89.09	\$72.60	\$74.67	\$72.36
Residential Alcohol Treatment	\$0.00	\$0.00	\$66.77	\$42.99	\$57.10	\$57.44
Pre Release	\$43.49	\$44.99	\$44.54	\$45.40	\$45.37	\$45.43
Probation & Parole & ISP	\$3.75	\$3.98	\$3.75	\$3.89	\$3.64	\$3.52

*After 17-7-140 reductions and special session reductions

It should be noted that only the cost of contract beds increase or decrease in direct proportion to population changes.

Operating costs of the correctional institutions have a large fixed cost component, and unless radical population changes occur within the institution, average daily population costs will increase if the population decreases, and decrease if the population increases. (For example, if the population of the prison increases by ten, it is unlikely that the prison would be required to hire additional staff. Therefore, the cost per day would go down because the same staffing level is supervising more inmates.)

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget						
Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
Admin And Support Services	\$ 20,705,767	\$ 10,398	\$ -	\$ 198,160	\$ 20,914,325	9.7%
Community Corrections	49,389,959	607,656	-	-	49,997,615	23.1%
Secure Custody Facilities	104,136,760	2,817,376	160,576	-	107,114,712	49.6%
Mont Correctional Enterprises	2,104,627	-	-	889,967	2,994,594	1.4%
Juvenile Corrections	33,519,765	874,026	633,530	-	35,027,321	16.2%
Grand Total	\$ 209,856,878	\$ 4,309,456	\$ 794,106	\$ 1,088,127	\$ 216,048,567	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	1,092.80	0.00	1,092.80	1,092.80	0.00	1,092.80	1,092.80	1,092.80
Personal Services	47,382,766	(19,600)	47,363,166	47,434,219	(14,160)	47,420,059	88,837,615	94,783,225
Operating Expenses	55,333,220	(2,975,408)	52,357,812	54,294,208	(566,068)	53,728,140	97,791,970	106,085,952
Equipment	324,500	0	324,500	324,500	0	324,500	637,383	649,000
Capital Outlay	50	0	50	50	0	50	50	100
Grants	0	0	0	0	0	0	30,218	0
Benefits & Claims	7,040,196	0	7,040,196	7,040,196	0	7,040,196	13,743,861	14,080,392
Transfers	0	0	0	0	0	0	0	0
Debt Service	224,949	0	224,949	224,949	0	224,949	308,037	449,898
Total Costs	\$110,305,681	(\$2,995,008)	\$107,310,673	\$109,318,122	(\$580,228)	\$108,737,894	\$201,349,134	\$216,048,567
General Fund	107,213,681	(2,995,008)	104,218,673	106,218,433	(580,228)	105,638,205	195,203,921	209,856,878
State/Other Special	2,156,131	0	2,156,131	2,153,325	0	2,153,325	3,393,847	4,309,456
Federal Special	397,053	0	397,053	397,053	0	397,053	1,736,235	794,106
Proprietary	538,816	0	538,816	549,311	0	549,311	1,015,131	1,088,127
Total Funds	\$110,305,681	(\$2,995,008)	\$107,310,673	\$109,318,122	(\$580,228)	\$108,737,894	\$201,349,134	\$216,048,567

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

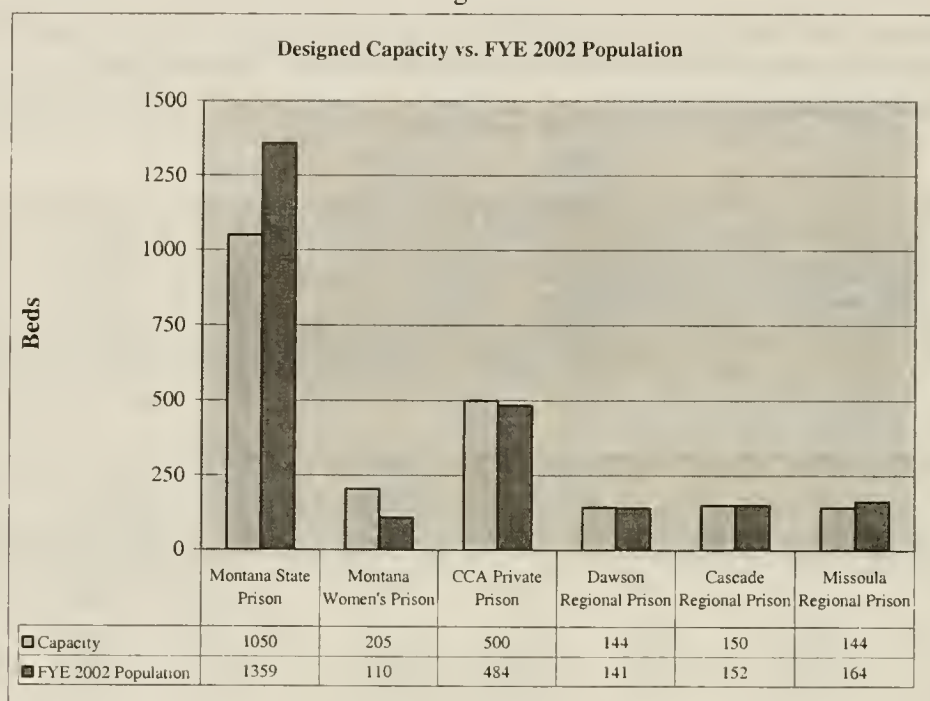
New Proposals									
Program	FTE	Fiscal 2004				Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Total Funds
DP 8001 - MCE License Plate reissue Delete									
04	0.00	(2,995,008)	0	0	(2,995,008)	0.00	(580,228)	0	(580,228)
Total	0.00	(\$2,995,008)	\$0	\$0	(\$2,995,008)	0.00	(\$580,228)	\$0	(\$580,228)

Agency Issues

Population Reduction

The following figure illustrates the secure facility populations at the end of fiscal 2002 in comparison to design capacity of the facilities.

Figure 4



Faced with increasing prison populations, budget cuts, and the potential of a \$9.0 million supplemental, the department was forced to look at ways to decrease costs for fiscal 2003. Under 46-18-201, MCA, the judge may commit an offender to the department for up to five years with a recommendation for placement in an appropriate correctional facility or program (DOC commitments). This provides the department with flexibility in determining placement. In the summer of 2002, the department adopted a policy where offenders committed to the department would be screened for conditional release. The department has set the following criteria in determining conditional release:

- Offenders committed to the department and placed in a correctional facility or program
- Offenders who are in prerelease, on ISP, or in prison in medium or minimum custody
- Offenders who are serving a sentence for fourth offense or subsequent DUI and are not serving the initial 13-month sentence
- Offenders who have at least 60 days of conduct without a severe disciplinary infraction
- Offenders who have formally violated conditions of parole or conditional release and have been sent back to prison for a minimum of four months from the date of the violation hearing

As of December 2, 2002, 310 offenders had been released from prison. Nineteen of those released have been returned to prison due to a release violation.

Another change the department made to deal with the increasing prison populations was to change the role of the Missoula Regional Prison to become an assessment and sanction center. This will provide space for the assessment of male offenders committed to the Department of Corrections and some of the beds will be available for sanctioning offenders who have violated conditions of probation, parole, prerelease, or conditional release.

**LFD
ISSUE****Population Reductions**

In 1999, it is estimated that it cost Americans \$24 billion to incarcerate 1.2 million nonviolent offenders. In Montana, it cost the state approximately \$31.5 million to incarcerate nonviolent offenders in fiscal 2002.¹

This is over four times more than general fund spent on foster care. There are many policy implications in incarcerating nonviolent offenders, but this population may deserve further scrutiny to determine whether the costs of incarceration outweigh the benefits. After evaluating some of the information provided below, the legislature may want to provide the department with an expanded list of options for conditional release and for diverting offenders from prison to community supervision. In addition, the legislature may want to determine if parole policies are releasing low-risk prisoners and if the emphasis of parole revocations are based on public safety rather than a means to supervise.

Women Prisoners

The Justice Policy Institute suggests looking at the incarcerated female population for ways to reduce correctional costs. The rationale used by the Institute is based on the following four factors:

- The rate of growth of incarcerated women is the fastest growing portion of the U.S. prison population. In Montana, the growth rate of incarcerated women has averaged over 15 percent each year for the last 10 years compared to 7 percent for men
- Most women offenders are incarcerated for nonviolent property and drug crimes, approximately 75 percent in Montana
- Nationally, the rate of recidivism for women is much lower than for men - 27 percent for women compared to 41 percent for men
- There are additional economic and social costs involved with the incarceration of women, in particular those who have children under age 18. Sixty-five percent of the women at Montana Women's Prison have children under age 18

Currently, the department can only consider for conditional release those women who were committed to the department, approximately 47 percent. Based on the nature of the crimes for the majority of this population and that women are not as likely to return to prison, a large portion of this population appears to be a low-risk to society. The legislature may want to expand the department options for this group.

With approximately 75 percent of women offenders incarcerated for nonviolent property and drug crimes in Montana, the legislature may want to divert more offenders to community supervision and expand rehabilitation and treatment services in the community. By providing drug and alcohol treatment or other needed programming to nonviolent offenders under community supervision, it allows them to be taxpaying members of the community, rather than tax-using offenders, and the potential exists to increase restitution to victims and provide community service.

Voters in Arizona and California approved initiatives to divert from prison nonviolent offenders convicted of drug possession. Drug treatment slots were created for offenders who would be diverted from prison. It is estimated that the initiative is saving more than \$6.0 million per year in Arizona and \$100.0-150.0 million in prison costs in California (plus savings in avoiding construction of a new prison). Campaigns for similar initiatives were launched in three additional states - Florida, Michigan, and Ohio.² The California Department of Corrections reports a 10 percent drop in the female inmate population and acknowledged that this decline is due in a large part to this initiative.³ The Ohio Campaign for New Drug Policies states it costs approximately \$3,500 for one year in drug treatment as opposed to approximately \$23,000 for one year in prison.

¹ Based on the following assumptions: An average of 47.9 percent of the adult population were incarcerated for a nonviolent offense in between fiscal years 1991 and 2001. In 2002, approximately 6.1 percent of the nonviolent population was over the age of 55. Average yearly cost to incarcerate offenders age 55 or less - \$20,688. Average daily cost to incarcerate offenders over age 55 based on national statistics - \$69,000.

² Greene, Judith and Vincent Schiraldi. "Cutting Correctly: New Prison Policies for Times of Fiscal Crisis." Justice Policy Institute.

³ California Proposition 36, The Substance Abuse and Crime Prevention Act of 2000. Drug Policy Alliance. May 2002

Montana tackled a portion of this population when the 2001 legislature approved the WATCH DUI Unit, which provides intensive residential treatment for offenders who have had four or more driving-under-the-influence convictions. This type of residential program is more expensive than the drug treatment referred to in the Arizona and California programs, but the length of stay is about one-half of what incarceration in a state prison would be.

Options:

- Change statute to allow the department to consider all nonviolent offenders who meet stipulated criteria for conditional release
- Divert more offenders to community supervision and expand community rehabilitation and treatment

Elderly Prisoners

Inmates tend to have health problems that are more common in people ten years older. There is a great variation in how correctional systems define elderly, but for the purposes of this discussion 55 years or older will be used. It is estimated that health care costs are three times higher for this population than the rest of the population and that the cost of incarcerating an elderly inmate averages \$69,000 per year⁴ for medical and incarceration costs.⁵ In contrast, probation would cost roughly \$1,350 per year or \$4,380 for intensive supervision.

An offender in community corrections is, for the most part, responsible for their own health care costs. Therefore, if the offender does not have sufficient resources, the medical costs may shift to a different part of the state budget. Medicaid may cover the medical care for some of these individuals, but it has not been determined whether any of this group would fall under the following two eligibility criteria: 1) aged (over 65), blind, or disabled; or 2) be in a family with dependent children. In addition, resource and assets tests must be met in order to be eligible for Medicaid. The average cost to serve an aged Medicaid recipient was about \$13,000 in fiscal 1999 in Montana.

The following national statistics indicate that a large proportion of this population may be a low-risk to society:

- The National Center on Institutions and Alternatives found that more than 50 percent of elderly prisoners are convicted of nonviolent offenses
- Studies on criminal behavior show that as offenders age, they "age-out" of their crime-prone years⁶
- Parolees age 55 or older had the highest rate of successful completion of parole (55 percent)⁷
- Recidivism of older parolees and probationers is low⁸

Options:

There are currently 152 inmates age 55 or older serving time for a nonviolent offense. The legislature may want to ask the department to:

- Research the costs of nonviolent, elderly offenders in Montana and determine if there are lower-cost options available, such as:
 - Adopt a prison release policy that would target nonviolent offenders over the age of 55 who have served a pre-determined portion of their sentence (Virginia recently changed statute to allow a release program for elderly inmates)
 - Consider home custody options
 - Provide intensive probation supervision at a nursing home, for those who are in poor health (some may be Medicaid eligible)

⁴ This figure does not represent savings to the state if the prisoners were released, as marginal costs of incarceration are lower than average costs. These savings would be realized only if the prison were able to close a wing. In addition, the cost to incarcerate an elderly prisoner in Montana has not been determined.

⁵ Real War on Crime, National Center on Institutions and Alternatives. 1996 (Other studies have estimated the cost of incarcerating elderly inmates between \$60,000 and \$80,000 per inmate.)

⁶ Holman, Barry. "Old Men Behind Bars." National Center on Institutions and Alternatives. 1999.

⁷ Hughes, Timothy and Doris Wilson and Allen Beck. "Trends in State Parole, 1990-2000." Bureau of Justice Statistics. October 2001. (The overall success rate for all parolees is 42 percent.)

⁸ U.S. Department of Justice, Bureau of Justice Statistics, "Probation and Parole Violators in State Prison, 1991." August 1995.

Probation/Parole Violators

While revocations remove felons from the streets, it is not known how much risk those individuals pose. The number of probation and parole violators in the prison system has grown through the years due to an increase in the number of revocations and an increase in the length of stay. In 2001, 55 percent of adult incarcerations in Montana were due to revocations. The cost to incarcerate those individuals was approximately \$21.4 million in general fund. The percent of adult incarcerations from revocations in Montana has grown from 48 percent in 1991 to 55 percent in 2001. In addition, national statistics show parole violators served an average length of sentence of 13 months in 1999 - up from 11 months in 1990. (Utah reduced the average sentence for parole violators from 10.7 months to 6 months.) In Montana, the average length of incarceration for revocations was significantly higher than the national average:

- o 16.0 months for male non-violent revocations
- o 10.2 months for female a non-violent revocations
- o 33.4 months for male violent revocations
- o 21.9 months for female violent revocations

Due to the increase in revocations, some jurisdictions are looking for ways to increase the success rate of parolees and better ways to manage the transition from prison to community. Kansas legislators mandated that probation and parole violators be sanctioned within the community corrections system rather than being sent to prison. In addition, supervision time in Kansas was reduced 50 percent for offenders convicted of low-level offenses.⁹ In Montana, the department has recently changed the Missoula Regional Prison to become an assessment and sanction center. This will provide space for the assessment of male offenders committed to the Department of Corrections and some of the beds will be available for sanctioning offenders who have violated conditions of probation, parole, prerelease, or conditional release.

To help determine whether revocation responses can be improved, it might be useful to answer the following questions.

- o Are there alternative strategies and resources that could be used to reduce risk?
- o What is the lowest level of a sanction or removal of a freedom that would reduce risk?
- o Could lower-risk parolees be placed in unsupervised parole?
- o Should the average length of stay be lower for revocations? (The department's goal is to lower the length of incarceration for revocations to six months)
- o Should the use of voice recognition supervision for low-risk parolees and probationers be expanded?

The legislature may want to ask the department to provide statistics on who is on probation and parole, who is violating, what types of violation, and the types of responses by the department and, subsequently county attorneys and the court. This will help the legislature determine if offenders are being supervised safely, but also cost-effectively. It might also help the legislature answer the questions posed above and determine if any action needs to be taken to improve the policies that currently dictate probation and parole violations.

⁹ Greene, Judith and Vincent Schiraldi.
Dept. Of Corrections

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	91.50	0.00	0.00	91.50	0.00	0.00	91.50	91.50
Personal Services	3,960,266	385,201	0	4,345,467	383,959	0	4,344,225	8,689,692
Operating Expenses	5,303,576	635,914	0	5,939,490	926,481	0	6,230,057	12,169,547
Equipment	0	0	0	0	0	0	0	0
Debt Service	27,543	0	0	27,543	0	0	27,543	55,086
Total Costs	\$9,291,385	\$1,021,115	\$0	\$10,312,500	\$1,310,440	\$0	\$10,601,825	\$20,914,325
General Fund	9,220,046	991,447	0	10,211,493	1,274,228	0	10,494,274	20,705,767
State/Other Special	4,321	2,281	0	6,602	(525)	0	3,796	10,398
Federal Special	0	0	0	0	0	0	0	0
Proprietary	67,018	27,387	0	94,405	36,737	0	103,755	198,160
Total Funds	\$9,291,385	\$1,021,115	\$0	\$10,312,500	\$1,310,440	\$0	\$10,601,825	\$20,914,325

Program Description

The Administration and Support Services Program includes the Director's Office, Centralized Services Division, and the administratively attached Board of Pardons. This program provides: 1) administrative and management support, human resources, budget, fiscal, and legal information; 2) technical correctional services; 3) policy and staff development; 4) research; 5) facility management; and 6) access to health care services.

Program Narrative

Administration and Support Services Program	
Major Budget Highlights	
○ Increase of \$2.3 million general fund requested for 2005 biennium over the base budget ○ \$1.2 million for statewide present law adjustments ○ \$1.1 million for an increase in outside medical costs	
Major LFD Issues	
○ None	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

**Program Funding Table
Admin And Support Services**

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 9,220,046	99.2%	\$ 10,211,493	99.0%	\$ 10,494,274	99.0%
02261 P & P Supervisory Fee	-	-	-	-	-	-
02917 Msp Canteen Revolving Acct	3,083	0.0%	1,322	0.0%	144	0.0%
02927 Phs Donations/I & I	1,238	0.0%	5,280	0.1%	3,652	0.0%
03316 Mbcc Grants	-	-	-	-	-	-
06033 Prison Ranch	47,790	0.5%	64,945	0.6%	10,606	0.1%
06034 Msp Institutional Industries	14,215	0.2%	20,583	0.2%	73,753	0.7%
06545 Prison Indust. Training Prog	5,013	0.1%	8,877	0.1%	19,396	0.2%
Grand Total	\$ 9,291,385	100.0%	\$ 10,312,500	100.0%	\$ 10,601,825	100.0%

Present Law Adjustments

	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					538,183					536,899
Vacancy Savings					(179,932)					(179,890)
Inflation/Deflation					11,273					16,609
Fixed Costs					235,347					208,408
Total Statewide Present Law Adjustments					\$604,871					\$582,026
DP 1 - Board Member Per Diem and Travel Increase	0.00	22,700	0	0	22,700	0.00	22,700	0	0	22,700
DP 2 - Board Member Base Per Diem and ACA Reaccreditation	0.00	20,000	0	0	20,000	0.00	15,000	0	0	15,000
DP 26 - Outside Medical Adjustment	0.00	373,544	0	0	373,544	0.00	690,714	0	0	690,714
Total Other Present Law Adjustments										
	0.00	\$416,244	\$0	\$0	\$416,244	0.00	\$728,414	\$0	\$0	\$728,414
Grand Total All Present Law Adjustments					\$1,021,115					\$1,310,440

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Board Member Per Diem and Travel Increase - The executive requests funding for board member per diem of \$50 per day for every day the member is engaged in performance of board duties. Funding is also requested for increases in travel expenses due to court rulings that changed how parole hearings are held. The Board has previously utilized one hearing examiner in accordance with 46-23-108, MCA, to conduct many hearings throughout the State of Montana and utilized other states' paroling authorities to conduct hearings for Montana offenders housed out-of-state. The Montana Supreme Court recently issued opinions that mandate offenders, who committed crimes prior to April 30, 2001, appear before at least a majority of the Montana Board. The Court ruled that all Native American offender parole applications require the full participation of the Board member with "particular knowledge of Indian culture and problems."

**LFD
COMMENT**

The executive requests \$45,400 general fund for the biennium. Travel expenditures for the Board of Pardons in the base budget are \$22,513. An increase of \$10,750 is requested. This represents an increase of 48.5 percent in travel.

DP 2 - Board Member Base Per Diem and ACA Reaccreditation - This is a request to fund per diem and expenses involved with American Corrections Association reaccreditation in fiscal 2004. The projected per diem of \$15,000 per fiscal year and \$5,000 in fiscal 2004 is requested for accreditation.

**LFD
COMMENT**

Combined per diem in the above two decision packages would fund seven board members for 77 days per year at \$50 per day. Base expenditures for per diem in fiscal 2002 were \$15,000, which equates to approximately 43 days per year for seven board members. The increase requested in this decision package and the decision package above would provide \$26,950 general fund for per diem each year - an increase of 79.6 percent.

DP 26 - Outside Medical Adjustment - This request contains an increase for pharmaceutical costs and an inflationary adjustment of 5 percent per year for outside medical treatment based on the allowed inflation rate by the budget office. The total in this request is a net of these increases and a reduction of \$2,371 due to an alternative pay plan adjustment required by the executive.

**LFD
COMMENT**

Based on projected populations and an increase in outside medical costs of 5 percent each year, the LFD calculation reflects a present law adjustment of approximately \$146,000 less than requested by the executive. However, the department has built in a contingency amount of approximately \$175,000 for the biennium in the event medical services are needed for offenders receiving conditional release.

Other Issues*Broadbanding*

The Board of Pardons moved to the alternative pay plan called broadbanding in March 2001. The increases (1.9 to 11.9 percent) approved in the initial move were captured in the "snapshot" and are fully funded in the present law budget. This represents an increase of approximately \$10,000, which creates a higher base for all subsequent statutory pay increases.

The board recently granted "result" pay increases in October of 2002, which were not captured in the snapshot. These costs will have to be funded within the existing budget. The October 2002 increases will have an annual impact of an additional \$6,140. Overall, the average salary in the Board of Pardons has increased 16.0 percent since moving to the broadband pay plan (this includes the annualized increase of HB 13).

The executive stated they would reduce budgets by an amount necessary to fund the increases granted by broadbanding. The executive requests a reduction of \$2,371 in the Outside Medical Adjustment decision package, but this does not offset the \$10,000 granted in fiscal 2002.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	205.00	0.00	0.00	205.00	0.00	0.00	205.00	205.00
Personal Services	8,526,396	349,171	0	8,875,567	364,528	0	8,890,924	17,766,491
Operating Expenses	12,670,357	3,234,492	0	15,904,849	3,552,006	0	16,222,363	32,127,212
Equipment	24,243	0	0	24,243	0	0	24,243	48,486
Debt Service	27,713	0	0	27,713	0	0	27,713	55,426
Total Costs	\$21,248,709	\$3,583,663	\$0	\$24,832,372	\$3,916,534	\$0	\$25,165,243	\$49,997,615
General Fund	20,944,881	3,583,663	0	24,528,544	3,916,534	0	24,861,415	49,389,959
State/Other Special	303,828	0	0	303,828	0	0	303,828	607,656
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$21,248,709	\$3,583,663	\$0	\$24,832,372	\$3,916,534	\$0	\$25,165,243	\$49,997,615

Program Description

The Community Corrections Program includes adult probation and parole, WATCH DUI Unit, Interstate Compact, and the Treasure State Correctional Training Center. In addition, the department contracts with non-profit corporations in Great Falls, Butte, Missoula, Billings, and Helena for pre-release services.

Program Narrative

Community Corrections Program Major Budget Highlights	
- o Increase of \$7.5 million general fund requested for 2005 biennium over the base budget. Major increases include: - o \$0.9 general fund increase for prerelease - o \$1.2 million for alternatives to prison - o \$4.6 million to annualize DUI WATCH program	
Major LFD Issues	
- o Determine if boot camp is cost effective - o Raise supervision fee	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Community Corrections						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 20,944,881	98.6%	\$24,528,544	98.8%	\$ 24,861,415	98.8%
02261 P & P Supervisory Fee	303,828	1.4%	303,828	1.2%	303,828	1.2%
03315 Misc Federal Grants	-	-	-	-	-	-
03316 Mbcc Grants	-	-	-	-	-	-
Grand Total	\$ 21,248,709	100.0%	\$24,832,372	100.0%	\$ 25,165,243	100.0%

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				718,988						734,992
Vacancy Savings				(369,817)						(370,464)
Inflation/Deflation				4,754						51,630
Fixed Costs				(420)						(420)
Total Statewide Present Law Adjustments				\$353,505						\$415,738
DP 3 - Alternatives to Prison - Treatment and Employment	0.00	623,433	0	0	623,433	0.00	623,952	0	0	623,952
DP 7 - Cook/Chill Base Adjustment for TSCTC	0.00	21,347	0	0	21,347	0.00	21,347	0	0	21,347
DP 10 - Base and Inflation Increase for Prerelease Centers	0.00	344,628	0	0	344,628	0.00	542,774	0	0	542,774
DP 11 - Base and Inflation Increase for DUI Facility	0.00	2,240,750	0	0	2,240,750	0.00	2,312,723	0	0	2,312,723
Total Other Present Law Adjustments										
	0.00	\$3,230,158	\$0	\$0	\$3,230,158	0.00	\$3,500,796	\$0	\$0	\$3,500,796
Grand Total All Present Law Adjustments				\$3,583,663						\$3,916,534

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Sub-Program Details

COMMUNITY CORRECTION ADMIN 01

Community Corrections Administration includes supervisory staff.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	12.50	0.00	0.00	12.50	0.00	0.00	12.50	12.50
Personal Services	568,301	7,872	0	576,173	8,795	0	577,096	1,153,269
Operating Expenses	62,447	(109)	0	62,338	724	0	63,171	125,509
Equipment	0	0	0	0	0	0	0	0
Debt Service	8,821	0	0	8,821	0	0	8,821	17,642
Total Costs	\$639,569	\$7,763	\$0	\$647,332	\$9,519	\$0	\$649,088	\$1,296,420
General Fund	639,569	7,763	0	647,332	9,519	0	649,088	1,296,420
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$639,569	\$7,763	\$0	\$647,332	\$9,519	\$0	\$649,088	\$1,296,420

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				31,881					32,841
Vacancy Savings				(24,009)					(24,046)
Inflation/Deflation				(109)					724
Total Statewide Present Law Adjustments				\$7,763					\$9,519
Grand Total All Present Law Adjustments				\$7,763					\$9,519

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Sub-Program Details

TREASURE STATE CORRECTIONAL TRAINING 02

Treasure State Correctional Training Center (TSCTC), referred to as the boot camp, is located on the campus of Montana State Prison. Approximately 100 completed training at the center in fiscal 2002. The boot camp program is voluntary. By volunteering, offenders may have their sentences reduced.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	26.51	0.00	0.00	26.51	0.00	0.00	26.51	26.51
Personal Services	1,091,202	(5,198)	0	1,086,004	(2,458)	0	1,088,744	2,174,748
Operating Expenses	335,982	22,846	0	358,828	24,250	0	360,232	719,060
Equipment	0	0	0	0	0	0	0	0
Debt Service	3,602	0	0	3,602	0	0	3,602	7,204
Total Costs	\$1,430,786	\$17,648	\$0	\$1,448,434	\$21,792	\$0	\$1,452,578	\$2,901,012
General Fund	1,430,786	17,648	0	1,448,434	21,792	0	1,452,578	2,901,012
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$1,430,786	\$17,648	\$0	\$1,448,434	\$21,792	\$0	\$1,452,578	\$2,901,012

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				40,053					42,907
Vacancy Savings				(45,251)					(45,365)
Inflation/Deflation				1,499					2,903
Total Statewide Present Law Adjustments				(\$3,699)					\$445
DP 7 - Cook/Chill Base Adjustment for TSCTC	0.00	21,347	0	0	21,347	0.00	21,347	0	0
Total Other Present Law Adjustments	0.00	\$21,347	\$0	\$0	\$21,347	0.00	\$21,347	\$0	\$21,347
Grand Total All Present Law Adjustments				\$17,648					\$21,792

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7 - Cook/Chill Base Adjustment for TSCTC - This request is to fund the cost increase to pay the allocated share of Montana State Prison's (MSP) cook/chill rate structure in accordance with state law regarding internal service funds.

LFD
COMMENT

An adjustment in the cook/chill rates at MSP results in a request for an increase of approximately \$0.5 million in general fund in the 2005 biennium for all of the Department of Correction facilities. The cook/chill operation is proprietary funded, but entities within the department purchasing meals from the cook/chill are general funded.

**LFD
ISSUE****Evaluate Cost Effectiveness of Boot Camp**

Boot camps became a popular incarceration model in the late 1980's to early 1990's, partially in response to a political climate of "getting tough on crime". Because boot camps were new, little research was available to determine the effectiveness of this type of incarceration. In 1988, the U.S. General Accounting Office (GAO) concluded, "available data are not sufficient to determine if boot camps reduce prison overcrowding, costs, or recidivism."

More recent research shows that:

- While participants are in boot camp, there is a positive impact on their attitudes. However, the short-term benefits appear to disappear once the participant leaves the program¹⁰
- Most boot camp programs do not reduce recidivism; although, programs that include an intensive supervision phase may lower recidivism.¹¹ In Montana, an initial study shows the two and three-year recidivism rate of TSCTC graduates is actually higher than for those out of the prison system, although the new conviction rate of the prison system is higher than the boot camp. The division states that a more complete study will be released in the near future that will give a more complete picture. Higher recidivism rates mean increased costs
- Boot camps can save money if an offender goes to boot camp rather than to a secure facility, successfully graduates, has a sentence reduction, and does not recidivate at a higher rate than someone out of the prison system. The average daily cost of keeping an offender in boot camp is significantly higher than Montana State Prison (\$89/day versus \$57/day in fiscal 2002), but offenders have shorter stays (90-120 days). However, the fact that a person can be admitted to TSCTC from probation widens the net for higher-cost supervision. It is possible for an offender to go to TSCTC (\$89/day) who otherwise would have been on probation (\$3.54/day). This "net-widening" has the potential to put more offenders in boot camp where they receive more expensive treatment. If the offender coming from probation fails at boot camp, prison may be the next stop
- Since 1998, the length of stay at TSCTC has gradually increased for those successfully completing the program. The average length of stay in 1998 was 106.3 days and in 2002 was 114.7 days. This also contributes to increased costs
- Approximately 53 percent of offenders admitted to TSCTC have successfully completed the program over the past five years. Those failing stayed an average of 43.8 days
- The percent of probationers successfully completing the TSCTC program is 59 percent

Options:

- Continue funding of the program at the requested level
- Change statute so probationers cannot be admitted to the boot camp. This could save general fund; however, if those slots filled by probationers are not filled by other offenders, economies of scale may dilute any savings
- Discontinue funding for the boot camp. This option would require a statutory change. As an alternative to closure, the legislature may want to request that the department provide information necessary to determine
 - whether better step-down services would increase the success of the program; and/or
 - if the boot camp is successful in its mission and if it reduces costs to taxpayers compared to incarceration in a secure facility.

If the legislature determines that the boot camp has not been successful and decides to change statute to eliminate the boot camp, it may want to keep in mind gender-equity issues. The Montana Women's Prison (MWP) has an Intensive Challenge Program (similar to the boot camp) available to the women. Therefore, the legislature may want to direct the department to offer a scaled-down version of the boot camp at the state prison or eliminate the Intensive Challenge Program at MWP.

If eliminated, approximately \$1.6 million of the \$2.9 million boot camp budget would need to be appropriated to contract beds (unless it is determined a portion of the population could be served in lower-cost supervision). In addition, the legislature may want the department to propose an alternative use for the facility.

¹⁰ MacKenzie, Doris and Claire Souryal. "Multisite Study of Correctional Boot Camps." Koch Crime Institute.

¹¹ MacKenzie, Doris and Claire Souryal.

Sub-Program Details

PRE-RELEASE 03

The department currently contracts with pre-release centers located in Butte, Billings, Great Falls, Missoula, and Helena. Prerelease centers provide supervised education, treatment, and work opportunities for offenders. Offenders are required to reside in these centers during their placements. Currently there are 520 traditional prerelease beds, 26 beds for boot camp, and 30 chemical dependency beds.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Personal Services	0	0	0	0	0	0	0	0
Operating Expenses	9,461,291	968,061	0	10,429,352	1,166,726	0	10,628,017	21,057,369
Total Costs	\$9,461,291	\$968,061	\$0	\$10,429,352	\$1,166,726	\$0	\$10,628,017	\$21,057,369
General Fund	9,461,291	968,061	0	10,429,352	1,166,726	0	10,628,017	21,057,369
Total Funds	\$9,461,291	\$968,061	\$0	\$10,429,352	\$1,166,726	\$0	\$10,628,017	\$21,057,369

Present Law Adjustments											
-----Fiscal 2004-----						-----Fiscal 2005-----					
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds	
Personal Services					0					0	
Vacancy Savings					0					0	
Total Statewide Present Law Adjustments					\$0						\$0
DP 3 - Alternatives to Prison - Treatment and Employment											
0.00	623,433		0	0	623,433	0.00	623,952		0	0	623,952
DP 10 - Base and Inflation Increase for Prerelease Centers											
0.00	344,628		0	0	344,628	0.00	542,774		0	0	542,774
Total Other Present Law Adjustments											
0.00	\$968,061		\$0	\$0	\$968,061	0.00	\$1,166,726		\$0	\$0	\$1,166,726
Grand Total All Present Law Adjustments					\$968,061						\$1,166,726

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3 - Alternatives to Prison - Treatment and Employment - The executive requests an increase of \$1.2 million for the 2005 biennium to the Community Corrections budget to provide service for the increasing number of inmates being sent directly to community corrections or being moved from secure custody to community corrections.

**LFD
COMMENT**

The decision package includes biennial amounts of approximately \$465,000 for contracted tracking services for ISP offenders and \$782,000 for contracted chemical dependency treatment and employment counseling. The chemical dependency counselors and employment specialists would be located at probation and parole offices to provide onsite treatment. Employment specialists would also work with prerelease centers.

This decision package should be included in the Probation and Parole subprogram rather than Prerelease. When the legislature takes action on this decision package, this amount will increase the Probation and Parole subprogram rather than Prerelease.

The 2001 legislature approved an increase in Probation and Parole contracted services of \$0.5 million, increasing the total annual amount allocated for contracted services to \$0.7 million for each year of the 2003 biennium. In fiscal 2002, only \$215,000 of that amount was used for contracted services. Due to prison populations being higher than the number appropriated for, the other \$500,000 was used to offset shortfalls in the budget to prevent the need for a supplemental.

**LFD
ISSUE****Provide Cost-Effectiveness Report**

The legislature may want to require the department to provide to the next legislature a report documenting the cost-effectiveness of these programs and any impact on revocations. The department states that where the fiscal 2002 funds were used, it had a positive impact on reducing revocations.

DP 10 - Base and Inflation Increase for Prerelease Centers - The executive requests an increase for annualization of operating costs for prerelease centers. In fiscal 2002, the Helena center operated under capacity and the prerelease centers in Great Falls, Missoula, Butte and Billings periodically operated under capacity.

**LFD
COMMENT**

The division states there are currently 113 people on the waiting list.

Sub-Program Details

PROBATION AND PAROLE 04

Probation and Parole supervises over 6,000 inmates.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	165.99	0.00	0.00	165.99	0.00	0.00	165.99	165.99
Personal Services	6,866,893	346,497	0	7,213,390	358,191	0	7,225,084	14,438,474
Operating Expenses	2,128,089	4,017	0	2,132,106	48,301	0	2,176,390	4,308,496
Equipment	0	0	0	0	0	0	0	0
Debt Service	15,290	0	0	15,290	0	0	15,290	30,580
Total Costs	\$9,010,272	\$350,514	\$0	\$9,360,786	\$406,492	\$0	\$9,416,764	\$18,777,550
General Fund	8,706,444	350,514	0	9,056,958	406,492	0	9,112,936	18,169,894
State/Other Special	303,828	0	0	303,828	0	0	303,828	607,656
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$9,010,272	\$350,514	\$0	\$9,360,786	\$406,492	\$0	\$9,416,764	\$18,777,550

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				647,054					659,244
Vacancy Savings				(300,557)					(301,053)
Inflation/Deflation				4,437					48,721
Fixed Costs				(420)					(420)
Total Statewide Present Law Adjustments				\$350,514					\$406,492
Grand Total All Present Law Adjustments				\$350,514					\$406,492

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

**LFD
ISSUE****Supervision Fee**

Statute states that a probationer or parolee shall pay a supervisory fee of no less than \$120 a year and no more than \$360 a year, prorated at no less than \$10 a month for the number of months under supervision. The court or the board may reduce or waive the fee or suspend the monthly payment of the fee if it determines that the payment would cause the probationer or parolee a significant financial hardship.¹² Revenues to this account in fiscal 2002 were \$383,643, with expenditures of \$304,000. In the Governor's reductions ordered under 17-7-140, MCA, \$150,000 was taken from the fund balance of this account. The revenue from this fee is used for training and equipment for probation and parole officers and some operating costs.

Approximately one-third of the current probationers and parolees in Montana pay a supervision fee of \$15 per month. Increasing numbers in probation and parole should increase the revenues slightly in the 2005 biennium. The supervisory fee charged by several surrounding states is:

- o \$35/month - Idaho
- o \$30/month - Utah
- o \$15/month regular probation and \$50/month for ISP - Washington
- o \$50/month (70 percent goes to victim compensation and 30 percent to adult probation services) - Arizona

It is hard to determine whether this population could sustain an increase in the fee, but the legislature may want to consider:

- o Charging the maximum allowed in current statute - this would double revenues to approximately \$1.5 million for the biennium
- o Increasing the fee to \$35 - with one-third paying the fee, revenues for the biennium would equal \$1.8 million

¹² 46-23-1031, MCA.

Sub-Program Details

DUI UNIT 05

The DUI Unit is under contract with Community, Counseling, and Correctional Services, Inc. Intensive residential alcohol treatment is provided for offenders convicted of a fourth or subsequent driving under the influence offense. The facility has 140 beds.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	682,548	2,239,677	0	2,922,225	2,312,005	0	2,994,553	5,916,778
Equipment	24,243	0	0	24,243	0	0	24,243	48,486
Total Costs	\$706,791	\$2,239,677	\$0	\$2,946,468	\$2,312,005	\$0	\$3,018,796	\$5,965,264
General Fund	706,791	2,239,677	0	2,946,468	2,312,005	0	3,018,796	5,965,264
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$706,791	\$2,239,677	\$0	\$2,946,468	\$2,312,005	\$0	\$3,018,796	\$5,965,264

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Inflation/Deflation				(1,073)					(718)
Total Statewide Present Law Adjustments				(\$1,073)					(\$718)
DP 11 - Base and Inflation Increase for DUI Facility									
0.00	2,240,750	0	0	2,240,750	0.00	2,312,723	0	0	2,312,723
Total Other Present Law Adjustments									
0.00	\$2,240,750	\$0	\$0	\$2,240,750	0.00	\$2,312,723	\$0	\$0	\$2,312,723
Grand Total All Present Law Adjustments				\$2,239,677					\$2,312,005

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 11 - Base and Inflation Increase for DUI Facility – This request annualizes the costs associated with operating the felony DUI WATCH program. The executive is recommending general fund of \$4.6 million for the 2005 biennium. The 2001 legislature authorized the department to contract with a private service provider to operate a facility for felony DUI offenders. The facility opened on February 2, 2002 and provides more intensive treatment, but also saves general fund over placement in secure custody.

**LFD
COMMENT**

In 1997, a fourth driving under the influence of alcohol or drugs offense became a felony punishable by: 1) imprisonment for a term of not less than 6 months or more than 13 months; 2) probation for a term of not less than 1 year or more than 4 years; and 3) a fine of not less than \$1,000 or more than \$10,000. In an attempt to deal with rising contract bed costs and to provide better chemical dependency treatment, the 2001 legislature passed SB 489. SB 489 revised the penalties for fourth or subsequent offenses of driving under the influence of alcohol or drugs. The act allows those persons convicted of a fourth or subsequent offense to be sentenced to the Department of Corrections for appropriate placement in a correctional facility or residential alcohol treatment program. If the person successfully completes a residential alcohol treatment program operated or approved by the Department of Corrections, the remainder of the 13-month sentence must be served on probation. The department projected that with the passage of SB 489, there would be savings in contract beds and chemical dependency pre-release beds. Therefore, the 2001 legislature approved a biennial reduction of approximately \$5.8 million general fund for contract beds for an overall net reduction of \$2.5 million in fiscal 2003 in the department's budget. Savings of approximately \$3.0 million per year are projected for the 2005 and future biennia.

WATCH Statistics as of November 1, 2002:

- o Total of 231 admitted to the program since opening on February 1, 2002
- o Average number of DUI's of program admittees: 5.81
- o Blood alcohol content at time of arrest: 0.21
- o 93 discharges to date, with 71 completing the program and 22 not completing the program
- o Aftercare statistics for the 71 completing the program show:
 - o 65 (91.6 percent) have kept their initial aftercare appointments - of the 6 individuals who did not keep their initial appointments, 3 have rescheduled and made the follow-up appointment, constituting a 95.8 percent follow-up compliance rate
 - o 66 individuals (93.0 percent) are attending AA on a "regular basis"
 - o 68 individuals (95.8 percent) are regularly reporting to their probation/parole officer
 - o 54 individuals (76.1 percent) are currently employed - 6 of those not employed were released from the program less than 30 days ago
 - o 2 individuals (2.8 percent) have received sanctions for initial non-compliance with probation and parole rules. Both of these individuals are now in compliance
 - o 3 individuals (4.2 percent) have absconded from supervision
 - o No arrests for committing a new crime

Of the 22 not completing the program:

- o 18 returned to a higher level of custody to serve remainder of 13-month sentence
- o 1 died
- o 1 transferred to prerelease center
- o 2 did not complete program because sentence expired

In August 2002, the first group of graduates finished the program. Although the statistics presented above look very positive, there has not been sufficient time to measure the success of the program. However, a calculation of the 71 completing the program as of November 1 versus the cost if they had been imprisoned for 13 months reveals a savings of approximately \$0.8 million. If the program graduates 76 percent of the number admitted, savings of \$4.8 million would be realized in the 2005 biennium. This is less than the fiscal note projection of \$6.0 million due to the contract cost being slightly higher than originally projected and because the fiscal note assumes an 80 percent success rate.

**LFD
ISSUE****Follow-Up**

The legislature may want to request that the department provide a report to the appropriate interim committee in the fall of 2003, providing a full-year of statistics on the program, including, but not limited to:

- o Numbers graduated versus admitted
- o Sanctions, revocations, and new arrests of graduates
- o Length of stay for those who did not complete and subsequent sentence of those not graduating
- o Comparison statistics of sanctions, revocations, and new arrests of those fourth or subsequent DUI offenders serving prison time

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	578.45	0.00	0.00	578.45	0.00	0.00	578.45	578.45
Personal Services	22,628,824	2,325,324	0	24,954,148	2,357,881	0	24,986,705	49,940,853
Operating Expenses	27,156,550	600,154	0	27,756,704	1,355,003	0	28,511,553	56,268,257
Equipment	292,757	0	0	292,757	0	0	292,757	585,514
Capital Outlay	50	0	0	50	0	0	50	100
Grants	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	159,994	0	0	159,994	0	0	159,994	319,988
Total Costs	\$50,238,175	\$2,925,478	\$0	\$53,163,653	\$3,712,884	\$0	\$53,951,059	\$107,114,712
General Fund	49,316,699	2,357,978	0	51,674,677	3,145,384	0	52,462,083	104,136,760
State/Other Special	841,188	567,500	0	1,408,688	567,500	0	1,408,688	2,817,376
Federal Special	80,288	0	0	80,288	0	0	80,288	160,576
Total Funds	\$50,238,175	\$2,925,478	\$0	\$53,163,653	\$3,712,884	\$0	\$53,951,059	\$107,114,712

Program Description

The Secure Facilities Program includes the Montana State Prison, Montana Women's Prison, and contract beds.

Program Narrative

Secure Facilities Program Major Budget Highlights	
○ Increase of \$5.5 million general fund requested for 2005 biennium over the base budget. Major changes include: ○ \$3.0 million increase for zero-based personal services ○ \$2.5 million increase to annualize MWP expansion ○ \$1.7 million increase for statewide present law adjustments ○ \$1.7 million decrease in contract beds	
Major LFD Issues	
○ Inmate canteen surcharge ○ 124 percent increase in operating cost requested for MWP due to expansion	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

**Program Funding Table
Secure Custody Facilities**

<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 49,316,699	98.2%	\$ 51,674,677	97.2%	\$ 52,462,083	97.2%
02339 Inmate Welfare/Inmate Pay	100,000	0.2%	100,000	0.2%	100,000	0.2%
02917 Msp Canteen Revolving Acct	741,188	1.5%	1,308,688	2.5%	1,308,688	2.4%
03315 Misc Federal Grants	80,288	0.2%	80,288	0.2%	80,288	0.1%
Grand Total	\$ 50,238,175	100.0%	\$ 53,163,653	100.0%	\$ 53,951,059	100.0%

Present Law Adjustments		Fiscal 2004				Fiscal 2005				
		FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special
Personal Services					1,803,064					1,837,021
Vacancy Savings					(977,238)					(978,638)
Inflation/Deflation					37,672					48,675
Fixed Costs					(758)					(758)
Total Statewide Present Law Adjustments					\$862,740	\$906,300				
DP 5 - Adjustment for Employee & Inmate Personal Services										
	0.00	1,499,498	0	0	1,499,498	0.00	1,499,498	0	0	1,499,498
DP 8 - Cook/Chill Rate Adjustment Montana State Prison										
	0.00	221,153	0	0	221,153	0.00	221,153	0	0	221,153
DP 12 - Montana Women's Prison Expansion										
	0.00	1,280,431	0	0	1,280,431	0.00	1,280,431	0	0	1,280,431
DP 15 - Increase in Inmate Canteen Authority										
	0.00	0	283,750	0	283,750	0.00	0	283,750	0	283,750
DP 25 - Contract Placement Present Law Decrease										
	0.00	(1,222,094)	0	0	(1,222,094)	0.00	(478,248)	0	0	(478,248)
Total Other Present Law Adjustments										
	0.00	\$1,778,988	\$283,750	\$0	\$2,062,738	0.00	\$2,522,834	\$283,750	\$0	\$2,806,584
Grand Total All Present Law Adjustments					\$2,925,478	\$3,712,884				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Sub-Program Details

MONTANA STATE PRISON 01

The Montana State Prison (MSP), located in Deer Lodge, had an average daily population of 1,319 in fiscal 2002.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	501.17	0.00	0.00	501.17	0.00	0.00	501.17	501.17
Personal Services	20,476,563	1,700,367	0	22,176,930	1,734,196	0	22,210,759	44,387,689
Operating Expenses	7,645,105	535,564	0	8,180,669	544,329	0	8,189,434	16,370,103
Equipment	292,757	0	0	292,757	0	0	292,757	585,514
Capital Outlay	50	0	0	50	0	0	50	100
Grants	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	150,214	0	0	150,214	0	0	150,214	300,428
Total Costs	\$28,564,689	\$2,235,931	\$0	\$30,800,620	\$2,278,525	\$0	\$30,843,214	\$61,643,834
General Fund	27,643,213	1,668,431	0	29,311,644	1,711,025	0	29,354,238	58,665,882
State/Other Special	841,188	567,500	0	1,408,688	567,500	0	1,408,688	2,817,376
Federal Special	80,288	0	0	80,288	0	0	80,288	160,576
Total Funds	\$28,564,689	\$2,235,931	\$0	\$30,800,620	\$2,278,525	\$0	\$30,843,214	\$61,643,834

Present Law Adjustments											
-----Fiscal 2004-----					-----Fiscal 2005-----						
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds		
Personal Services				1,062,378						1,097,666	
Vacancy Savings				(861,509)						(862,968)	
Inflation/Deflation				31,151						39,916	
Fixed Costs				(490)						(490)	
Total Statewide Present Law Adjustments				\$231,530							\$274,124
DP 5 - Adjustment for Employee & Inmate Personal Services											
	0.00	1,499,498	0	0	1,499,498	0.00	1,499,498	0	0	1,499,498	
DP 8 - Cook/Chill Rate Adjustment Montana State Prison											
	0.00	221,153	0	0	221,153	0.00	221,153	0	0	221,153	
DP 15 - Increase in Inmate Canteen Authority											
	0.00	0	283,750	0	283,750	0.00	0	283,750	0	283,750	
Total Other Present Law Adjustments											
	0.00	\$1,720,651	\$283,750	\$0	\$2,004,401	0.00	\$1,720,651	\$283,750	\$0	\$2,004,401	
Grand Total All Present Law Adjustments				\$2,235,931							\$2,278,525

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 5 - Adjustment for Employee & Inmate Personal Services - The executive recommends this request be approved as costs of overtime, differential pay, holidays worked, comp time pay out, holiday pay out, and related benefits are zero based. These items are necessary and are re-established each biennium.

DP 8 - Cook/Chill Rate Adjustment Montana State Prison - This authority increase is necessary to pay the allocated share of Montana State Prison's cook/chill rate structure in accordance with state laws and policies regarding internal service funds.

DP 15 - Increase in Inmate Canteen Authority - This is a request for additional state special revenue authority to fund purchases for the inmate canteen at Montana State Prison (MSP). MSP has decreased the ability of inmates to order items from outside vendors and receive items from family members. This has caused more inmate dependence on the canteen system to procure personal need hygiene/food items. In addition, increased authority is needed due to increased population at MSP.

**LFD
ISSUE****Inmate Canteen Surcharge**

Iowa has a 6 percent surcharge on inmate canteen purchases. The funds offset operating costs of the respective institution. Inmate canteen funds at Montana secure facilities were approximately \$1.0 million in fiscal 2002.

A surcharge of 6 percent would generate \$0.1 million for the biennium.

Sub-Program Details

MONTANA WOMENS PRISON 02

The Montana Women's Prison (MWP), located in Billings, Montana, was recently expanded to 205 beds. The expansion was completed in the summer of 2002.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	68.27	0.00	0.00	68.27	0.00	0.00	68.27	68.27
Personal Services	1,741,632	635,402	0	2,377,034	634,821	0	2,376,453	4,753,487
Operating Expenses	1,033,111	1,286,495	0	2,319,606	1,288,416	0	2,321,527	4,641,133
Debt Service	9,088	0	0	9,088	0	0	9,088	18,176
Total Costs	\$2,783,831	\$1,921,897	\$0	\$4,705,728	\$1,923,237	\$0	\$4,707,068	\$9,412,796
General Fund	2,783,831	1,921,897	0	4,705,728	1,923,237	0	4,707,068	9,412,796
Total Funds	\$2,783,831	\$1,921,897	\$0	\$4,705,728	\$1,923,237	\$0	\$4,707,068	\$9,412,796

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				734,455					733,844
Vacancy Savings				(99,053)					(99,023)
Inflation/Deflation				6,212					8,133
Fixed Costs				(148)					(148)
Total Statewide Present Law Adjustments				\$641,466					\$642,806
DP 12 - Montana Women's Prison Expansion	0.00	1,280,431	0	0	1,280,431	0.00	1,280,431	0	0
Total Other Present Law Adjustments	0.00	\$1,280,431	\$0	\$0	\$1,280,431	0.00	\$1,280,431	\$0	\$0
Grand Total All Present Law Adjustments				\$1,921,897					\$1,923,237

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 12 - Montana Women's Prison Expansion - The expansion of the Montana Women's Prison was completed in the summer of 2002 and this decision package annualizes the costs of expansion. The expansion of MWP required additional FTE, increased operating costs, utilities, and contracted services, as well as equipment. The population of the facility is projected to increase to 141 by fiscal year end 2004.

Contracted services include medical, mental health, chemical dependency, and educational/vocational programming.

**LFD
COMMENT****Expansion Costs**

The expansion was originally slated to be complete in early calendar year 2003. Based on the original completion date, the 2001 legislature approved funding for approximately six months of the expansion in fiscal 2003. The 2001 legislature approved \$0.5 million for increased personal services costs (21.00 FTE for fiscal 2003, which would annualize to 28.00 FTE in fiscal 2004) and \$0.3 million in increased operating costs. With the expansion completed at the end of fiscal 2002, the increased operating costs were not captured in the base budget. This decision package provides funding to annualize those costs.

The "snapshot" fully funds the 28.00 FTE; therefore, the \$2.6 million requested for the 2005 biennium is for increased operating costs. This represents an increase of 124 percent in the operating costs for an increase in the average daily population of 74 percent. Based on the present law adjustment requested, the average cost per day would decrease from \$94.16 in fiscal 2002 to \$91.46 in fiscal 2005. In the past, it was projected that the cost per day would drop to the \$60/day range once the expansion unit was complete due to economies of scale. The average daily population for fiscal years 2004 and 2005 is based on conditional releases reducing populations. Once the prison is closer to capacity, greater economies of scale should be realized. However, if the present fiscal realities cause a permanent policy shift in determining that there is a better way to supervise nonviolent offenders, the possibility exists that the economies of scale envisioned will not be realized for years.

Sub-Program Details

CONTRACTED BEDS 04

The contract beds budget represents those expenditures directly related to housing Montana inmates outside of the state-operated correctional institutions. These currently include the regional prisons, county jails, and Crossroads (private prison in Shelby).

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	9.01	0.00	0.00	9.01	0.00	0.00	9.01	9.01
Personal Services	410,629	(10,445)	0	400,184	(11,136)	0	399,493	799,677
Operating Expenses	18,478,334	(1,221,905)	0	17,256,429	(477,742)	0	18,000,592	35,257,021
Debt Service	692	0	0	692	0	0	692	1,384
Total Costs	\$18,889,655	(\$1,232,350)	\$0	\$17,657,305	(\$488,878)	\$0	\$18,400,777	\$36,058,082
General Fund	18,889,655	(1,232,350)	0	17,657,305	(488,878)	0	18,400,777	36,058,082
Total Funds	\$18,889,655	(\$1,232,350)	\$0	\$17,657,305	(\$488,878)	\$0	\$18,400,777	\$36,058,082

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				6,231					5,511
Vacancy Savings				(16,676)					(16,647)
Inflation/Deflation				309					626
Fixed Costs				(120)					(120)
Total Statewide Present Law Adjustments				(\$10,256)					(\$10,630)
DP 25 - Contract Placement Present Law Decrease									
0.00	(1,222,094)	0	0	(1,222,094)	0.00	(478,248)	0	0	(478,248)
Total Other Present Law Adjustments									
0.00	(\$1,222,094)	\$0	\$0	(\$1,222,094)	0.00	(\$478,248)	\$0	\$0	(\$478,248)
Grand Total All Present Law Adjustments				(\$1,232,350)					(\$488,878)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 25 - Contract Placement Present Law Decrease - The executive requests a decrease in the contract beds budget for the 2005 biennium. The reduction is due to department efforts to move inmates through the system as quickly as possible, use of the conditional release program, and changes in sentencing patterns by judges who are aware of the financial crisis in the state. Public safety continues to be the number one priority. The projected savings to the general fund, due to a new growth projection of approximately 3.6 percent each year, is \$1.7 million for the 2005 biennium.

Proprietary Rates

Program Description

Food Factory Program - The food factory was established to provide cost effective nutritional meals to the Montana State Prison and other state and county agencies, using a cook/chill method of food preparation. The cook/chill method allows food to be prepared a week in advance and packaged in bulk or individual trays.

Revenues and Expenses

The food factory derives its revenue from the sale of bulk food and trayed meals to customers. Currently the customers who are served include: Montana State Prison, Montana State Hospital, Treasure State Correctional Training Center, Riverside Youth Correctional Facility, WATCH DUI Unit, and the Helena Prerelease Center. The anticipated revenues for fiscal 2004 and fiscal 2005 are \$2,230,000 and \$2,271,000 respectively. The largest expense the food factory incurs is the purchase of raw food items and personal services costs. The anticipated expenses for fiscal 2004 and fiscal 2005 are \$2,179,470 and \$2,221,266 respectively. The fiscal 2005 amount includes the purchase of equipment for \$41,796.

Food Factory Rates

Current food factory rates charged to the customers are lower than the rates established during the 2001 legislative session. The rates, as they were established, assumed that all customers would be purchasing a complete trayed meal. In reality, most customers receive a bulk product. The bulk customers are charged the food cost plus a monthly overhead charge. The per meal trayed customer rates for the 2005 biennium are as follows:

Montana State Prison	\$1.37
Riverside Youth Correctional Facility	\$2.01
WATCH DUI Unit	\$1.59
Helena Prerelease:	\$2.01

All meal rates include delivery costs.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06573	Prison Industries Cook Chill	64010	Dept. of Corrections	

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Food Factory	-	-	-	2,200,000	2,230,000	2,271,000
Net Fee Revenue			2,048,468	2,200,000	2,230,000	2,271,000
Investment Earnings			-	-	-	-
Securities Lending Income			-	-	-	-
Premiums			-	-	-	-
Other Operating Revenues						
Total Operating Revenues			2,048,468	2,200,000	2,230,000	2,271,000
Intrafund Revenue			-	-	-	-
Net Operating Revenues	-	-	2,048,468	2,200,000	2,230,000	2,271,000
Operating Expenses:						
Personal Services			715,330	750,000	820,196	820,196
Other Operating Expenses						
Miscellaneous, operating			1,427,073	1,511,178	1,359,274	1,401,070
Miscellaneous, other			-	-	-	-
Total Operating Expenses			2,142,403	2,261,178	2,179,470	2,221,266
Intrafund Expense			-	-	-	-
Net Operating Expenses	-	-	2,142,403	2,261,178	2,179,470	2,221,266
Operating Income (Loss)			(93,935)	(61,178)	50,530	49,734
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets			-	-	-	-
Federal Indirect Cost Recoveries			-	-	-	-
Other Nonoperating Revenues (Expenses)						
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers			(93,935)	(61,178)	50,530	49,734
Contributed Capital			3,806,076	-	-	-
Operating Transfers In (Note 13)			47,508	-	-	-
Operating Transfers Out (Note 13)			-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated			-	3,759,649	3,698,471	3,749,001
Net Income (Loss)	-	-	3,759,649	(61,178)	50,530	49,734
Retained Earnings/Fund Balances - June 30	-	-	3,759,649	3,698,471	3,749,001	3,798,735
60 days of expenses (Total Operating Expenses divided by 6)	-	-	357,067	376,863	363,245	370,211

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	15.00	0.00	0.00	15.00	0.00	0.00	15.00	15.00
Personal Services	638,268	221,828	(19,600)	840,496	218,586	(14,160)	842,694	1,683,190
Operating Expenses	655,003	2,975,931	(2,975,408)	655,526	566,943	(566,068)	655,878	1,311,404
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$1,293,271	\$3,197,759	(\$2,995,008)	\$1,496,022	\$785,529	(\$580,228)	\$1,498,572	\$2,994,594
General Fund	940,187	3,106,432	(2,995,008)	1,051,611	693,057	(580,228)	1,053,016	2,104,627
Proprietary	353,084	91,327	0	444,411	92,472	0	445,556	889,967
Total Funds	\$1,293,271	\$3,197,759	(\$2,995,008)	\$1,496,022	\$785,529	(\$580,228)	\$1,498,572	\$2,994,594

Program Description

The Montana Correctional Enterprises (MCE) Program includes the ranch, industries, dairy, license plate, and vocational education programs at the Montana State Prison facility. MCE also has industry programs located at the Montana Women's Prison, Cascade County Regional Detention Facility, and Crossroads Correctional Facility. MCE programs provide employment and vocational educational training opportunities to offenders. Approximately 350 offenders are involved in education, training, and employment with MCE programs.

Program Narrative

Montana Correctional Enterprises Program	
Major Budget Highlights	
○ Increase of \$3.7 million general fund requested for 2005 biennium over the base budget for license plate reissue (costs are offset but require legislation) ○ \$0.5 million increase in proprietary authority ○	
Major LFD Issues	
○ Increase of 171.3 percent general fund requested for inmate pay ○ Fund vocational education/training with proprietary funds - \$1.1 million general fund savings ○ Change statute to allow only one license plate on motor vehicle - \$0.8 million general fund savings	

Although there is a present law decision package of \$3.7 million for the license plate reissue, there is a new proposal that offsets this amount that is dependent on legislation passing. The legislation would change the date of reissue of license plates to fiscal 2006.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

**Program Funding Table
Mont Correctional Enterprises**

<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 940,187	72.7%	\$ 1,051,611	70.3%	\$ 1,053,016	70.3%
06034 Msp Institutional Industries	-	-	-	-	-	-
06545 Prison Indust. Training Prog	353,084	27.3%	444,411	29.7%	445,556	29.7%
Grand Total	\$ 1,293,271	100.0%	\$ 1,496,022	100.0%	\$ 1,498,572	100.0%

The Industries program had general fund support equal to approximately 50.5 percent in the 2001 biennium, which increased to 64.1 percent in the 2003 biennium. The request for the 2005 biennium is 57.8 percent general fund.

-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				79,636					81,926
Vacancy Savings				(28,715)					(28,807)
Inflation/Deflation				523					875
Total Statewide Present Law Adjustments				\$51,444					\$53,994
DP 16 - MCE Voc Ed and Lic Plate Factory Inmate Payroll									
0.00	83,201	0	0	151,307 *	0.00	83,201	0	0	151,307 *
DP 18 - MCE License Plate Factory -Plate Reissue request									
0.00	2,995,008	0	0	2,995,008	0.00	580,228	0	0	580,228
Total Other Present Law Adjustments									
0.00	\$3,078,209	\$0	\$0	\$3,146,315 *	0.00	\$663,429	\$0	\$0	\$731,535 *
Grand Total All Present Law Adjustments				\$3,197,759 *					\$785,529 *

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 16 - MCE Voc Ed and License Plate Factory Inmate Payroll - The executive requests \$166,402 in general fund and \$136,212 in proprietary funds for the 2005 biennium. The general funds will be used for inmate payroll for the License Plate Factory and student payroll for inmates who attend classes on both the high and low security sides of the MSP compound. Vocational education proprietary funds requested are for inmates involved in motor vehicle maintenance, apprenticeship training, and the Toyota Project. Vocational Education and License Plate Factory inmate payroll is based on the approved Montana Correctional Enterprises inmate pay policy. Inmate payroll costs are only incurred as needed.

LFD ISSUE

Increase in Inmate Pay

In fiscal years 2000 through 2002, the program requested approximately \$28,000 each year more than actual expenditures for inmate pay. The increase requested for the 2005 biennium represents a 171 percent increase in general fund and a 209 percent increase in total funds over the base year. The decision package for the license plate reissue also contains approximately \$5,400 each year for inmate pay. The figure below shows historical expenditures for inmate pay. In 1998, the general fund supported 16 percent of inmate pay compared to 63 percent in fiscal 2002.

In the prison industries program, the general fund amount approved by the legislature for inmate pay in the 2001 biennium was 15.0 percent of the total request.

**LFD
ISSUE
(continued)**

Even though total funds were underspent in the 2001 biennium, the amount of general fund spent totaled 44.4 percent. In fiscal 2002, 43.4 percent of the total approved for inmate pay was general fund, yet the general fund percent of actual expenditures totaled 58.0 percent.

Option:

The request for general fund was over-estimated in fiscal years 2000 through 2002 by approximately \$28,000 each year and average general fund expenditures for the last three years are \$32,000. In addition, the division has used a higher percent of

general fund for inmate pay than the division is funded at. Therefore, the legislature may want to appropriate general fund closer to the average general fund expenditures in fiscal years 2000 through 2002 and mandate that the division expend inmate pay in line with the percent that general fund supports the Industries Program. A savings of \$96,500 general fund for the biennium would be realized if general fund of \$35,000 is appropriated each year of the 2005 biennium.

Figure House Bill 2 Inmate Pay License Plate Factory and Prison Industries									
	1996 Actual	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2004 Requested	2005 Requested
General Fund	\$22,766	\$13,224	\$10,222	\$23,483	\$32,763	\$32,796	\$30,666	\$83,201	\$83,201
Proprietary	50,412	56,288	54,508	31,566	24,065	19,167	18,354	68,106	68,106
Total	\$73,178	\$69,512	\$64,730	\$55,049	\$56,828	\$51,963	\$49,020	\$151,307	\$151,307
% GF of Total	31.11%	19.02%	15.79%	42.66%	57.65%	63.11%	62.56%	54.99%	54.99%

DP 18 - MCE License Plate Factory -Plate Reissue request - Current law requires a reissue of license plates in fiscal 2004, and every four years thereafter. Last session the legislature approved a new digital license plate system in SB 393 and HB 191. It is believed that the intent was to convert the entire license plate system over to the digital system this biennium. The executive requests approximately \$3.6 million in general fund for the biennium to fund the specialty license plates and the regular reissue license plates using the digital license plate system.

The costs associated with the license plate reissue are based on a plate production projection of 2,300,000 plates (1,800,000 reissue plates, and regular yearly production of 50,000 small and 450,000 large plates) in fiscal 2004 and regular plate production of 500,000 (50,000 small and 450,000 large plates) in fiscal 2005. The costs in this request are in addition to the base budget and include funding for the digital license plate equipment lease, personal services (including inmate payroll), additional material, and operational costs.

**LFD
ISSUE****Plate Reissue**

The department has indicated that this decision package can be reduced by \$61,500 each year, as there is one assumption that changed since this proposal was submitted to the Office of Budget and Program Planning.

Legislation is being proposed to delay the issue of new plates from 2004 to 2006. If this legislation is passed, new proposal 8001 below, will negate the above present law decision package.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 8001 - MCE License Plate reissue Delete										
04	0.00	(2,995,008)	0	0	(2,995,008)	0.00	(580,228)	0	0	(580,228)
Total	0.00	(\$2,995,008)	\$0	\$0	(\$2,995,008)	0.00	(\$580,228)	\$0	\$0	(\$580,228)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 8001 - MCE License Plate Reissue Delete - This request is a companion to PL 18 and is contingent upon passage and approval of proposed legislation to change the statutory requirements for license plate reissue every four years. The proposed legislation would delay the reissue until 2006. [LC 162]

**LFD
ISSUE****Contingent on Passage of Legislation**

The legislature may want to delay action on this decision package until the proposed legislation has been passed and approved.

Other Issues**LFD
ISSUE****Vocational Training/Education Proprietary**

The 2005 biennium request for vocational training/education is \$1.1 million general fund and \$0.8 million in proprietary funds. The legislature may want to direct the department to ensure the rates charged for products are sufficient to also cover the general fund vocational training/education costs.

**LFD
ISSUE****One License Plate**

Under current law, two license plates must be issued to the owner of a motor vehicle. Some vehicles, such as motorcycles, are exempt from this provision. As of March 2001, nineteen states require that motor vehicles carry only one license plate. Considering the current state fiscal condition, the legislature may want to consider legislation that would require only one license plate on motor vehicles. The department estimates that it costs \$2.20 to produce each digital license plate and regular plate production is approximately 500,000 each year. Going to one plate could result in a biennial savings of \$1.1 million general fund (because economies of scale would not be as great with decreased production, savings may be slightly overstated). Savings in the Department of Justice of slightly over \$10,000 for the biennium would also be realized for lower postage and freight of delivering the plates to county offices.

- Introduce legislation to require only one license plate. Contingent upon passage, general fund could be reduced \$1.1 million.
- Take no action

Proprietary Rates**Program Description**

The Montana Correctional Enterprise (MCE) Industry program includes furniture, upholstery, print, sign, and laundry operations at the Montana State Prison facility. In addition, telemarketing programs are operated at the regional and private prison locations around Montana.

The MCE Ranch and Dairy operation includes range cattle, dairy, crops, feedlot and composting located at the Montana State Prison facility.

The MCE Vocational Education program operates a motor vehicle maintenance shop, Toyota cutaway operation, 2 x 4 lumber processing plant, and the Montana Food Bank cannery at the Montana State Prison Facility.

Revenues and Expenses

Montana Correctional Enterprises (MCE) Industry revenues are derived from product sales to state and private customers. Operational needs, cash flow, economic return, customer orders, and product inventory levels determine the expenses. Overall revenue levels are dependant on marketing efforts, legislative restrictions, state agency purchases, retail outlet dealer sales, expansion and adjustment of the product line, continuation of the Certified Industry Program, private sector

complaints, private customer contracts, and the success of the programs at the Montana Women's Prison, regional, and private prisons.

MCE Ranch and Dairy revenues are based on the market value of products sold. Expenditures are dependant on operational needs, cash flow, economic return, weather conditions, product market prices, and discussions with the Ranch Advisory Committee.

MCE Vocational Education Motor Vehicle Maintenance (MVM) revenues are based on customer vehicle and equipment repair and maintenance needs. Toyota revenues are based on contracts with the Toyota Company for producing motor vehicle cut-aways and trainers. Revenues and the need for parts and supplies for the repairs and contract projects determine the expenditure levels. The MCE Vocational Education Food Bank revenues are derived from reimbursement of actual costs incurred.

Rate Explanation

The MCE Industries rates for furniture, upholstery, print and sign shops are based on competitive product pricing.

The MCE Industries laundry rates increased in fiscal year 2002 for the first time since the inception of the laundry program in 1996. MCE is not projecting any rate increase for the 2005 biennium. The current laundry rates are as follows:

- Montana State Prison and Treasure State Correctional Training Center - \$.39 per pound
- Montana State Hospital - \$.38 per pound
- Montana Developmental Center and Riverside Youth Correctional Facility - \$.46 per pound.

The break-even cost for laundry operations is approximately \$.35 per pound without delivery costs. Any profit is maintained within the Industries account to be used for future laundry equipment replacement, as well as the overall Industries enterprise operation.

The Industries telemarketing rates are based on contracts with private companies.

MCE Ranch and Dairy rates are based on the current market prices of cattle, crops and dairy products.

MCE Vocational Education Motor Vehicle Maintenance (MVM) and Toyota pricing are based on the cost of parts and an hourly labor charge. The labor charge covers the cost of the four FTE associated with the MVM and Toyota operations.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06033	Prison Ranch	64010	Dept. of Corrections	

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	3,343,668	2,485,690	2,694,306	2,682,000	2,700,000	2,600,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	3,343,668	2,485,690	2,694,306	2,682,000	2,700,000	2,600,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	3,343,668	2,485,690	2,694,306	2,682,000	2,700,000	2,600,000
Operating Expenses:						
Personal Services	855,191	933,222	1,017,836	1,038,360	1,049,235	1,049,235
Other Operating Expenses	1,718,787	1,382,573	1,377,785	1,578,381	1,298,465	1,301,050
Miscellaneous, operating	253,738	266,320	277,376	250,000	250,000	250,000
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	2,827,716	2,582,115	2,672,997	2,866,741	2,597,700	2,600,285
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	2,827,716	2,582,115	2,672,997	2,866,741	2,597,700	2,600,285
Operating Income (Loss)	515,952	(96,425)	21,309	(184,741)	102,300	(285)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	2,513	7,571	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	(332,014)	477,783	(68,349)	-	-	-
Net Nonoperating Revenues (Expenses)	(332,014)	480,296	(60,778)	-	-	-
Income (Loss) Before Operating Transfers	183,938	383,871	(39,469)	(184,741)	102,300	(285)
Contributed Capital	20,955	20,955	-	-	-	-
Operating Transfers In (Note 13)	-	425	-	78,500	78,500	78,500
Operating Transfers Out (Note 13)	(17,506)	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	7,672,811	7,812,084	8,217,335	8,177,866	8,071,625	8,252,425
Net Income (Loss)	187,387	405,251	(39,469)	(106,241)	180,800	78,215
Retained Earnings/Fund Balances - June 30	7,860,198	8,217,335	8,177,866	8,071,625	8,252,425	8,330,640
60 days of expenses (Total Operating Expenses divided by 6)	471,286	430,353	445,500	477,790	432,950	433,381

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06034,	Prison Industries	64010	Dept. of Corrections	
06545				Secure Facilities

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Revenue from Fees	-	-	2,889,002	3,333,806	2,835,000	2,835,000
Net Fee Revenue	2,659,771	2,819,132	2,889,002	3,333,806	2,835,000	2,835,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	2,659,771	2,819,132	2,889,002	3,333,806	2,835,000	2,835,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	2,659,771	2,819,132	2,889,002	3,333,806	2,835,000	2,835,000
Operating Expenses:						
Personal Services	1,302,543	1,565,072	1,617,664	1,978,931	1,532,321	1,532,321
Other Operating Expenses	1,570,372	1,153,694	1,057,340	1,314,057	1,410,702	1,312,239
Miscellaneous, operating	15,808	37,352	27,850	12,672	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	2,888,723	2,756,118	2,702,854	3,305,660	2,943,023	2,844,560
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	2,888,723	2,756,118	2,702,854	3,305,660	2,943,023	2,844,560
Operating Income (Loss)	(228,952)	63,014	186,148	28,146	(108,023)	(9,560)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(2,044)	(8,257)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(2,044)	(8,257)	-	-	-
Income (Loss) Before Operating Transfers	(228,952)	60,970	177,891	28,146	(108,023)	(9,560)
Contributed Capital	255,192	255,192	-	-	-	-
Operating Transfers In (Note 13)	-	-	2,345	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	1,545,030	1,199,033	1,515,195	1,695,431	1,723,577	1,615,554
Net Income (Loss)	26,240	316,162	180,236	28,146	(108,023)	(9,560)
Retained Earnings/Fund Balances - June 30	1,571,270	1,515,195	1,695,431	1,723,577	1,615,554	1,605,994
60 days of expenses (Total Operating Expenses divided by 6)	481,454	459,353	450,476	550,943	490,504	474,093

Significant Present Law

PL 17 – MCE Industries Equipment - MCE Industries is responsible for providing industry programs at the Montana Women's Prison, Great Falls Regional Jail, Cascade County Regional Detention Center, and Crossroads Correctional Center in Shelby. To start new programs it is foreseeable that equipment purchases would be necessary. The purchase of the equipment will only be made if the programs are started and if the Industries proprietary account (06034) has adequate cash flow.

PL 19 – MCE Ranch LP Program Authority Request - MCE Ranch and Louisiana Pacific (LP) lumber mill in Deer Lodge are working on a cooperative project where MCE processes non-stud (re-trim and economy) grade 2X4 and 2X6 lumber

by cutting out the defects in the lumber and palletizing the remaining sections to be used as finger-jointer blocks for processing at the LP mill. This request will continue this program, which was implemented in fiscal 2002.

PL 20 – MCE Ranch Dam Compliance Authority - MCE is requesting spending authority for continuation of the rehabilitation work on the MCE Ranch high hazard dams to comply with DNRC and the Montana Dam Safety Act requirements.

MCE Ranch has eight irrigation dams as part of overall ranch operation. Five of these dams have been classified as high-hazard by DNRC. The term high-hazard does not refer to the condition of the dam; rather it refers to the potential for loss of life downstream. The five high-hazard dams are permitted under the Montana Dam Safety Act. MCE Ranch has been working with DNRC to bring the five high-hazard dams into compliance, allowing the dam permits to continue. In the last legislative session, MCE Ranch received a DNRC renewable resource grant to partially fund the cost of engineering services on two of the high-hazard dams, Mud Lake and Upper Taylor. MCE has submitted another DNRC grant request for the 2005 biennium.

PL 24 – Ranch & Industries Inmate Payroll & Supervisor Overtime - The executive requests \$2.2 million in proprietary authority for the biennium for overtime and inmate pay.

**LFD
COMMENT**

Overtime expenditures in the base year were \$87,500. This request includes \$126,995 each year for overtime, an increase of 45 percent.

PL 28 – Termination of the Montana Food Bank Program - Montana Correctional Enterprises Ranch operates the Montana Food Bank Network Cannery. Funding for the Food Bank is split between the Montana Correctional Enterprises and the Department of Health and Human Services. During the past legislative session, the legislature approved the funding for a 50/50 split between these two agencies.

This proposal would terminate the cannery project due to cost inefficiencies, which would free general fund (DPHHS) and proprietary fund monies to be used for other areas. Based on current funding, termination of this program would result in yearly savings of approximately \$70,000 in each of the general and proprietary fund annual budgets.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	202.85	0.00	0.00	202.85	0.00	0.00	202.85	202.85
Personal Services	7,745,087	602,401	0	8,347,488	610,424	0	8,355,511	16,702,999
Operating Expenses	1,854,618	246,625	0	2,101,243	253,671	0	2,108,289	4,209,532
Equipment	7,500	0	0	7,500	0	0	7,500	15,000
Benefits & Claims	8,040,196	(1,000,000)	0	7,040,196	(1,000,000)	0	7,040,196	14,080,392
Debt Service	9,699	0	0	9,699	0	0	9,699	19,398
Total Costs	\$17,657,100	(\$150,974)	\$0	\$17,506,126	(\$135,905)	\$0	\$17,521,195	\$35,027,321
General Fund	16,468,441	283,907	0	16,752,348	298,976	0	16,767,417	33,519,765
State/Other Special	518,667	(81,654)	0	437,013	(81,654)	0	437,013	874,026
Federal Special	669,992	(353,227)	0	316,765	(353,227)	0	316,765	633,530
Total Funds	\$17,657,100	(\$150,974)	\$0	\$17,506,126	(\$135,905)	\$0	\$17,521,195	\$35,027,321

Program Description

The Juvenile Corrections Division is responsible for all state operated youth programs, including: Pine Hills Youth Correctional Facility for males located in Miles City, Riverside Youth Correctional Facility for females in Boulder, as well as statewide juvenile community corrections including parole services for youth released from state operated secure care facilities, youth transition center, specialized foster care services, interstate compact service for probation and parole in and out of state, juvenile detention licensing, monitoring and funding for state district probation placements, research and training for the division and other agencies, and administrative support services.

Program Narrative

Juvenile Corrections Division Major Budget Highlights	
○ Decrease of \$1.5 million general fund requested for 2005 biennium over the base budget ○ \$2.0 million decrease in juvenile placement funds ○ \$0.5 million increase to annualize PHYCF expansion	
Major LFD Issues	
○ None	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Juvenile Corrections						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 16,468,441	93.3%	\$ 16,752,348	95.7%	\$ 16,767,417	95.7%
02034 Earmarked Alcohol Funds	25,523	0.1%	25,523	0.1%	25,523	0.1%
02916 Phs-Canteen	6,236	0.0%	6,236	0.0%	6,236	0.0%
02927 Phs Donations/I & I	257,115	1.5%	257,115	1.5%	257,115	1.5%
02970 Juvenile Plcmnt Cost Of Care	229,793	1.3%	148,139	0.8%	148,139	0.8%
03084 Mvs-School Foods	17,096	0.1%	-	-	-	-
03089 Phs-School Foods	139,012	0.8%	-	-	-	-
03099 Phs-Esea Title I	45,941	0.3%	45,941	0.3%	45,941	0.3%
03315 Misc Federal Grants	397,504	2.3%	200,385	1.1%	200,385	1.1%
03530 93.658 - Iv-E Post Care & Adp	70,439	0.4%	70,439	0.4%	70,439	0.4%
Grand Total	\$ 17,657,100	100.0%	\$ 17,506,126	100.0%	\$ 17,521,195	100.0%

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				948,449					956,802	
Vacancy Savings				(347,748)					(348,078)	
Inflation/Deflation				11,317					18,363	
Fixed Costs				(1,140)					(1,140)	
Total Statewide Present Law Adjustments				\$610,878					\$625,947	
DP 9 - Contract Adjustments for Riverside	0.00	7,328	0	0	7,328	0.00	7,328	0	0	7,328
DP 13 - PHYCF Expansion Unit Request	0.00	230,820	0	0	230,820	0.00	230,820	0	0	230,820
DP 7001 - Continue reduction in Juvenile Placement disburse	0.00	(1,000,000)	0	0	(1,000,000)	0.00	(1,000,000)	0	0	(1,000,000)
Total Other Present Law Adjustments										
	0.00	(\$761,852)	\$0	\$0	(\$761,852)	0.00	(\$761,852)	\$0	\$0	(\$761,852)
Grand Total All Present Law Adjustments				(\$150,974)					(\$135,905)	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Sub-Program Details

JUVENILE CORRECTIONS ADMINISTRATION 01

The Juvenile Corrections Administration Division is responsible for all state operated youth programs, including Pine Hills Youth Correctional Facility for males located in Miles City, Riverside Youth Correctional Facility for females in Boulder, and the Juvenile Community Corrections Bureau.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	3.68	0.00	0.00	3.68	0.00	0.00	3.68	3.68
Personal Services	119,238	112,624	0	231,862	112,061	0	231,299	463,161
Operating Expenses	35,541	137	0	35,678	466	0	36,007	71,685
Equipment	0	0	0	0	0	0	0	0
Benefits & Claims	0	0	0	0	0	0	0	0
Debt Service	2,307	0	0	2,307	0	0	2,307	4,614
Total Costs	\$157,086	\$112,761	\$0	\$269,847	\$112,527	\$0	\$269,613	\$539,460
General Fund	157,086	112,761	0	269,847	112,527	0	269,613	539,460
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$157,086	\$112,761	\$0	\$269,847	\$112,527	\$0	\$269,613	\$539,460

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				122,284					121,699
Vacancy Savings				(9,660)					(9,638)
Inflation/Deflation				212					541
Fixed Costs				(75)					(75)
Total Statewide Present Law Adjustments				\$112,761					\$112,527
Grand Total All Present Law Adjustments				\$112,761					\$112,527

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Sub-Program Details

JUVENILE CORRECTIONS BUREAU 02

The Juvenile Corrections Bureau consists of statewide juvenile community corrections including parole services for youth released from state operated secure care facilities, youth transition center, specialized foster care services, interstate compact services for probation and parole in and out of state, juvenile detention licensing, monitoring and funding for state district probation placements, research and training for the division and other agencies, and administrative support services.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	21.04	0.00	0.00	21.04	0.00	0.00	21.04	21.04
Personal Services	869,056	148,151	0	1,017,207	148,304	0	1,017,360	2,034,567
Operating Expenses	491,160	114	0	491,274	416	0	491,576	982,850
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$1,360,216	\$148,265	\$0	\$1,508,481	\$148,720	\$0	\$1,508,936	\$3,017,417
General Fund	1,171,747	336,734	0	1,508,481	337,189	0	1,508,936	3,017,417
Federal Special	188,469	(188,469)	0	0	(188,469)	0	0	0
Total Funds	\$1,360,216	\$148,265	\$0	\$1,508,481	\$148,720	\$0	\$1,508,936	\$3,017,417

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				190,535					190,696
Vacancy Savings				(42,384)					(42,392)
Inflation/Deflation				114					416
Total Statewide Present Law Adjustments				\$148,265					\$148,720
Grand Total All Present Law Adjustments				\$148,265					\$148,720

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Sub-Program Details

RIVERSIDE YOUTH CORRECTIONAL FACILITY 03

The Riverside Institution located in Boulder, is a detention facility for juvenile female offenders. The program places an emphasis on offenders accepting responsibility for their actions and gaining individual competencies that will help them avoid re-offending. The treatment programs include education, counseling, personal growth activities, and parental involvement. This facility has a capacity for an average daily population of 18. The average daily population in fiscal 2002 was 16 at a cost per day of \$208 general fund.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	25.00	0.00	0.00	25.00	0.00	0.00	25.00	25.00
Personal Services	1,039,431	(27,763)	0	1,011,668	(25,145)	0	1,014,286	2,025,954
Operating Expenses	211,469	8,977	0	220,446	9,786	0	221,255	441,701
Equipment	7,500	0	0	7,500	0	0	7,500	15,000
Total Costs	\$1,258,400	(\$18,786)	\$0	\$1,239,614	(\$15,359)	\$0	\$1,243,041	\$2,482,655
General Fund	1,212,997	26,617	0	1,239,614	30,044	0	1,243,041	2,482,655
State/Other Special	19,657	(19,657)	0	0	(19,657)	0	0	0
Federal Special	25,746	(25,746)	0	0	(25,746)	0	0	0
Total Funds	\$1,258,400	(\$18,786)	\$0	\$1,239,614	(\$15,359)	\$0	\$1,243,041	\$2,482,655

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				14,391					17,118	
Vacancy Savings				(42,154)					(42,263)	
Inflation/Deflation				1,649					2,458	
Total Statewide Present Law Adjustments				(\$26,114)					(\$22,687)	
DP 9 - Contract Adjustments for Riverside										
0.00	7,328		0	0	7,328	0.00	7,328	0	0	7,328
Total Other Present Law Adjustments										
0.00	\$7,328		\$0	\$0	\$7,328	0.00	\$7,328	\$0	\$0	\$7,328
Grand Total All Present Law Adjustments				(\$18,786)					(\$15,359)	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 9 - Contract Adjustments for Riverside - The executive requests the increase necessary to pay the allocated share of the MSP cook/chill rate structure in accordance with state law regarding internal service funds. The increase also includes Special Education services.

Sub-Program Details

TRANSITION CENTERS 04

The youth transition center serves as placement for youth prior to their return into the community. Program components include counseling, community service, education, and employment. An average of six beds were full in fiscal 2002.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	18.28	0.00	0.00	18.28	0.00	0.00	18.28	18.28
Personal Services	598,415	5,589	0	604,004	7,006	0	605,421	1,209,425
Operating Expenses	135,636	686	0	136,322	3,175	0	138,811	275,133
Total Costs	\$734,051	\$6,275	\$0	\$740,326	\$10,181	\$0	\$744,232	\$1,484,558
General Fund	723,350	16,976	0	740,326	20,882	0	744,232	1,484,558
State/Other Special	10,701	(10,701)	0	0	(10,701)	0	0	0
Total Funds	\$734,051	\$6,275	\$0	\$740,326	\$10,181	\$0	\$744,232	\$1,484,558

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				30,758					32,233
Vacancy Savings				(25,169)					(25,227)
Inflation/Deflation				686					3,175
Total Statewide Present Law Adjustments				\$6,275					\$10,181
Grand Total All Present Law Adjustments				\$6,275					\$10,181

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Sub-Program Details

PINE HILLS YOUTH CORRECTIONAL FACILITY 05

Pine Hills Youth Correctional Facility located in Miles City, Montana, houses male juvenile offenders and provides habilitative services. In fiscal 2002, the capacity increased from 120 beds to 144. The expansion has allowed the facility to provide residential sex offender and chemical dependency programs. The average daily population in fiscal 2002 was 105 at a cost of \$144 per day.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	134.85	0.00	0.00	134.85	0.00	0.00	134.85	134.85
Personal Services	5,118,947	363,800	0	5,482,747	368,198	0	5,487,145	10,969,892
Operating Expenses	980,812	236,711	0	1,217,523	239,828	0	1,220,640	2,438,163
Equipment	0	0	0	0	0	0	0	0
Benefits & Claims	138,861	0	0	138,861	0	0	138,861	277,722
Debt Service	7,392	0	0	7,392	0	0	7,392	14,784
Total Costs	\$6,246,012	\$600,511	\$0	\$6,846,523	\$608,026	\$0	\$6,854,038	\$13,700,561
General Fund	5,520,504	790,819	0	6,311,323	798,334	0	6,318,838	12,630,161
State/Other Special	340,170	(51,296)	0	288,874	(51,296)	0	288,874	577,748
Federal Special	385,338	(139,012)	0	246,326	(139,012)	0	246,326	492,652
Total Funds	\$6,246,012	\$600,511	\$0	\$6,846,523	\$608,026	\$0	\$6,854,038	\$13,700,561

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				590,481					595,056	
Vacancy Savings				(228,381)					(228,558)	
Inflation/Deflation				8,656					11,773	
Fixed Costs				(1,065)					(1,065)	
Total Statewide Present Law Adjustments				\$369,691					\$377,206	
DP 13 - PHYCF Expansion Unit Request	0.00	230,820	0	0	230,820	0.00	230,820	0	0	230,820
Total Other Present Law Adjustments										
	0.00	\$230,820	\$0	\$0	\$230,820	0.00	\$230,820	\$0	\$0	\$230,820
Grand Total All Present Law Adjustments				\$600,511					\$608,026	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 13 - PHYCF Expansion Unit Request - This request annualizes the expansion at the Pine Hills Correctional Youth Facility. The new construction project allowed an increase in capacity from 120 beds to 144 beds and was completed in the spring of 2002. Therefore, the fiscal 2002 base reflects an increase in the average daily population and FTE for only a partial year. The ADP is projected at 135 for fiscal years 2004 and 2005.

**LFD
ISSUE****Travel Request**

The decision package includes an increase of \$74,529 for travel for a total in travel of approximately \$89,000. Base expenditures for travel are \$14,400. Travel expenditures in the base year are low compared to historical expenditures. Therefore, the legislature may want to appropriate an increase in travel that is more in line with historical expenditures of \$25,000 or an increase of \$10,600. This lower increase would amount to a biennial savings of approximately \$128,000 general fund.

Sub-Program Details

JUVENILE PLACEMENT FUNDS 06

Juvenile Placement funds are used to place youth under the supervision of the Department of Corrections into private treatment facilities. Over 1,026 youth were served with juvenile placement funds in fiscal 2002. Each judicial district has a Youth Placement Committee which functions as a screening committee for all juvenile offenders referred to as "out-of-home" placements, and makes recommendations to the Youth Court as to the most appropriate and cost-effective placement. The juvenile placement funds are allocated to judicial districts. In addition, \$1.0 million is placed in a cost containment fund each year. The cost containment panel determines the distribution of those funds.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	0	0	0	0	0	0	0	0
Benefits & Claims	7,901,335	(1,000,000)	0	6,901,335	(1,000,000)	0	6,901,335	13,802,670
Total Costs	\$7,901,335	(\$1,000,000)	\$0	\$6,901,335	(\$1,000,000)	\$0	\$6,901,335	\$13,802,670
General Fund	7,682,757	(1,000,000)	0	6,682,757	(1,000,000)	0	6,682,757	13,365,514
State/Other Special	148,139	0	0	148,139	0	0	148,139	296,278
Federal Special	70,439	0	0	70,439	0	0	70,439	140,878
Total Funds	\$7,901,335	(\$1,000,000)	\$0	\$6,901,335	(\$1,000,000)	\$0	\$6,901,335	\$13,802,670

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 7001 - Continue reduction in Juvenile Placement disburse										
0.00	(1,000,000)	0	0	(1,000,000)	0.00	(1,000,000)	0	0	(1,000,000)	
Total Other Present Law Adjustments										
0.00	(\$1,000,000)	\$0	\$0	(\$1,000,000)	0.00	(\$1,000,000)	\$0	\$0	(\$1,000,000)	
Grand Total All Present Law Adjustments										
				(\$1,000,000)					(\$1,000,000)	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7001 - Continue Reduction in Juvenile Placement Disburse - The executive requests continuation of the Governor's fiscal 2003 expenditure reductions in Juvenile Placement funds of \$1.0 million in each year of the 2005 biennium.

**LFD
ISSUE**

The 2001 legislature appropriated \$17.7 million for the 2003 biennium for juvenile placement. This amount included \$1.0 million set aside each year in a cost containment fund. Fiscal 2002 expenditures were \$7.9 million, or \$1.0 million less than the amount appropriated. The Governor's expenditure reductions ordered under 17-7-140, MCA, included a \$1.0 million reduction for fiscal 2003 that kept the appropriation at 2002 expenditure levels. This decision package would reduce the appropriation by another million below the base, leaving a biennial appropriation of \$13.8 million.

The 2001 legislature approved two measures that may have facilitated the \$1.0 million savings in juvenile placement funds in fiscal 2002: 1) the expansion from 85 to 120 beds at Pine Hills allowing more youth to be served in state and saving out-of-state-placement monies; and 2) allowing judicial districts to voluntarily participate in the juvenile delinquency intervention program. The department started a pilot project in the 1999 biennium where juvenile placement funds were allocated directly to judicial districts in hopes that the districts would be innovative in developing early intervention and community alternatives and possibly save money. The 2001 legislature expanded the pilot project and made it available to all judicial districts on a voluntary basis.

The average daily population at Pine Hills increased from 60 in fiscal 2000 to 105 in fiscal 2002. With the last phase of the expansion completed at Pine Hills in the spring of 2002, an additional 24 beds are available. This may help reduce the impact of further reductions in juvenile placement funds.

The legislature may want to ask the department to provide information on how judicial districts will operate differently to reduce costs and still ensure that the reduction will not prevent youth from receiving the necessary services and placements.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	659.64	0.00	1.50	661.14	0.00	1.50	661.14	661.14
Personal Services	24,534,708	2,869,083	45,174	27,448,965	2,875,250	45,038	27,454,996	54,903,961
Operating Expenses	15,249,372	1,533,813	18,623	16,801,808	1,534,518	16,123	16,800,013	33,601,821
Equipment	432,003	30,000	0	462,003	30,000	0	462,003	924,006
Capital Outlay	965	0	0	965	0	0	965	1,930
Grants	16,013,711	952,778	0	16,966,489	952,777	0	16,966,488	33,932,977
Benefits & Claims	258,597	0	0	258,597	0	0	258,597	517,194
Transfers	131,551	0	0	131,551	0	0	131,551	263,102
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$56,620,907	\$5,385,674	\$63,797	\$62,070,378	\$5,392,545	\$61,161	\$62,074,613	\$124,144,991
General Fund	1,969,954	(106,871)	0	1,863,083	(109,017)	0	1,860,937	3,724,020
State/Other Special	22,630,948	3,127,791	(1,036,730)	24,722,009	3,155,911	(1,039,139)	24,747,720	49,469,729
Federal Special	31,976,879	2,339,924	1,100,527	35,417,330	2,320,926	1,100,300	35,398,105	70,815,435
Proprietary	43,126	24,830	0	67,956	24,725	0	67,851	135,807
Total Funds	\$56,620,907	\$5,385,674	\$63,797	\$62,070,378	\$5,392,545	\$61,161	\$62,074,613	\$124,144,991

Agency Description

The Department of Labor and Industry has a number of functions. In part, the department:

- oversees and regulates the Montana Workers' Compensation system
- enforces state and federal labor standards, anti-discrimination laws, and state and federal safety-occupational health laws
- provides adjudicative services in labor-management disputes
- administers the unemployment insurance program and disburses state unemployment benefits
- serves as an employment agency, provides job training to assist individuals in preparing for and finding jobs, and assists employers in finding workers
- oversees federal and state training and apprenticeship programs
- conducts research and collects employment statistics
- administers the federal AmeriCorps, Campus Corps, and Volunteer Montana programs through the Office of Community Services
- licenses, inspects, tests, and certifies all weighing or measuring devices used in making commercial transactions in the State of Montana
- provides administrative and clerical services to the 38 professional boards and occupational licensing programs authorized by state statutes; and
- establishes and enforces minimum building codes

Structurally, the department is divided into seven divisions: Workforce Services, Unemployment Insurance, Commissioner's Office/Centralized Services, Employment Relations (including the Human Rights Commission), and Business Standards; and the Office of Community Services and Workers' Compensation Court, both of which are administratively attached.

Department of Labor and Industry Major Budget Highlights	
○ Proposed reduction in general fund support to the Apprenticeship and Training Program ○ Proposed fund switch within the Workforce Services Division to free up Employment Security Account funding for use in Youth Challenge Program within the Department of Military Affairs	
Major LFD Issues	
○ Issues/options review for all general fund programs within the Workforce Services Division ○ Discussion of issues/options related to proposed fund switch within Workforce Services Division	

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget						
<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Proprietary</u>	<u>Grand Total</u>	<u>Total %</u>
Commissioner'S Office/Csd	\$ 345,903	\$ 1,501,897	\$ 854,814	\$ 135,807	\$ 2,838,421	2.3%
Employment Relations Division	1,706,809	12,594,424	1,442,000	-	15,743,233	12.7%
Business Standards Division	-	21,159,055	-	-	21,159,055	17.0%
Office Of Community Service	49,386	-	6,166,354	-	6,215,740	5.0%
Unemployment Insurance Division	-	609,910	12,671,554	-	13,281,464	10.7%
Work Force Services Division	1,621,922	12,711,917	49,680,713	-	64,014,552	51.6%
Workers Compensation Court	-	892,526	-	-	892,526	0.7%
Grand Total	<u>\$ 3,724,020</u>	<u>\$ 49,469,729</u>	<u>\$ 70,815,435</u>	<u>\$ 135,807</u>	<u>\$ 124,144,991</u>	<u>100.0%</u>

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	659.64	1.50	661.14	659.64	1.50	661.14	659.64	661.14
Personal Services	27,403,791	45,174	27,448,965	27,409,958	45,038	27,454,996	51,484,036	54,903,961
Operating Expenses	16,783,185	18,623	16,801,808	16,783,890	16,123	16,800,013	31,180,154	33,601,821
Equipment	462,003	0	462,003	462,003	0	462,003	854,238	924,006
Capital Outlay	965	0	965	965	0	965	2,359	1,930
Grants	16,966,489	0	16,966,489	16,966,488	0	16,966,488	34,137,682	33,932,977
Benefits & Claims	258,597	0	258,597	258,597	0	258,597	636,684	517,194
Transfers	131,551	0	131,551	131,551	0	131,551	245,287	263,102
Debt Service	0	0	0	0	0	0	13,158	0
Total Costs	\$62,006,581	\$63,797	\$62,070,378	\$62,013,452	\$61,161	\$62,074,613	\$118,553,598	\$124,144,991
General Fund	1,863,083	0	1,863,083	1,860,937	0	1,860,937	3,143,831	3,724,020
State/Other Special	25,758,739	(1,036,730)	24,722,009	25,786,859	(1,039,139)	24,747,720	43,975,314	49,469,729
Federal Special	34,316,803	1,100,527	35,417,330	34,297,805	1,100,300	35,398,105	71,329,041	70,815,435
Proprietary	67,956	0	67,956	67,851	0	67,851	105,412	135,807
Total Funds	\$62,006,581	\$63,797	\$62,070,378	\$62,013,452	\$61,161	\$62,074,613	\$118,553,598	\$124,144,991

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5 - Board FTE Request										
05	1.50	0	63,797	0	63,797	1.50	0	61,161	0	61,161
DP 7001 - ESA/Reed Act Fund Switch										
01	0.00	0	(1,100,527)	1,100,527	0	0.00	0	(1,100,300)	1,100,300	0
Total	1.50	\$0	(\$1,036,730)	\$1,100,527	\$63,797	1.50	\$0	(\$1,039,139)	\$1,100,300	\$61,161

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	301.60	0.00	0.00	301.60	0.00	0.00	301.60	301.60
Personal Services	11,095,498	950,242	0	12,045,740	958,318	0	12,053,816	24,099,556
Operating Expenses	5,250,516	396,683	0	5,647,199	364,604	0	5,615,120	11,262,319
Equipment	96,193	0	0	96,193	0	0	96,193	192,386
Capital Outlay	965	0	0	965	0	0	965	1,930
Grants	14,174,852	(77,222)	0	14,097,630	(77,223)	0	14,097,629	28,195,259
Transfers	131,551	0	0	131,551	0	0	131,551	263,102
Total Costs	\$30,749,575	\$1,269,703	\$0	\$32,019,278	\$1,245,699	\$0	\$31,995,274	\$64,014,552
General Fund	916,054	(105,030)	0	811,024	(105,156)	0	810,898	1,621,922
State/Other Special	6,781,481	672,849	(1,100,527)	6,353,803	676,933	(1,100,300)	6,358,114	12,711,917
Federal Special	23,052,040	701,884	1,100,527	24,854,451	673,922	1,100,300	24,826,262	49,680,713
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$30,749,575	\$1,269,703	\$0	\$32,019,278	\$1,245,699	\$0	\$31,995,274	\$64,014,552

Program Description

The Workforce Services Division (WSD) operates through five bureaus. The Field Operations Bureau functions through a network of 17 Job Service Centers. The division is a gateway to government services in the area of employment and training services. WSD performs services that include retraining and reemployment services for laid-off workers and employment and training services for people transitioning from welfare to work, as well as for youth, veterans, seasonal/migrant farm workers, and general job seekers. Other bureaus include Workforce Technology, Statewide Workforce Programs, Job Service Programs, and Research and Analysis.

Program Narrative

The Job Training Partnership Act (JTPA), which provided funding for many programs within this division, ended on June 30, 2000 and was replaced by the Workforce Investment Act (WIA). The Workforce Investment Act changed the focus to meeting the needs of businesses for skilled workers and providing for the training, education, and employment needs of individuals. The Workforce Investment Act mandates stringent agency accountability, and requires the tracking of 17 core performance measures. The new system is based on the "one-stop" concept, where information about and access to a wide array of job training, education, and employment services is available for customers at a single neighborhood location. The system uses Individual Training Accounts to allow adult users to make individual choices, and it empowers those users to "purchase" their training through the use of the accounts. The "one-stop" locations will have the responsibility of providing information on training services and providers. Customers will have the responsibility of choosing which service and providers best meet their needs. The Workforce Investment Act authorizes 'core' services available to all adults. There are no eligibility requirements and 'intensive' services are provided for unemployed individuals who are not able to find jobs through core services alone. The system's customer base includes adults, dislocated workers, and youth. Although many of the services provided are the same for each group, each group of customers has its own funding stream, thus helping to ensure equity of services across the customer base.

Workforce Services Division Major Budget Highlights
○ Proposed reduction in general fund support to the Apprenticeship and Training Program ○ Proposed fund switch within the division using federal Reed Act funds to free up Employment Security Account (ESA) funding for use in Youth Challenge Program within the Department of Military Affairs ○ Continuation of Natural Resource Workers' Scholarship Program
Major LFD Issues
○ Use of ESA funds ○ Philosophy will determine use of ESA ○ Program review and prioritization for funding should be performed before allocating ESA ○ Fund balance stability is questionable ○ Apprenticeship and Training Program ○ State support can be compared to other programs ○ State provides program oversight and education cost offset grants; does the legislature wish to provide either, both, or none of these? ○ Job Registry ○ Low number of registrants and successful placements make program relatively high cost ○ Current services provided can be performed by employees themselves; funding is insufficient to increase services ○ Program lacks an enforceable requirement for agencies to hire from list ○ Jobs For Montana's Graduates ○ Does the program fit within state's funding priorities? If so, what functions should be funded? ○ Displaced Homemaker Program ○ Program serves relatively low number of clients and potentially duplicates service provided through federal funds ○ Program funding should be included in overall prioritization of general fund/ESA funding ○ Potential exists to reduce number of contracts while focusing on areas of greatest need ○ Reed Act/ESA fund switch ○ Reed Act funding has limitations on use ○ Philosophy on use of ESA and program prioritization for funding must be determined prior to allocation of ESA ○ ESA fund balance stability is questionable

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Work Force Services Division						
<u>Program Funding</u>	<u>Base</u> <u>Fiscal 2002</u>	<u>% of Base</u> <u>Fiscal 2002</u>	<u>Budget</u> <u>Fiscal 2004</u>	<u>% of Budget</u> <u>Fiscal 2004</u>	<u>Budget</u> <u>Fiscal 2005</u>	<u>% of Budget</u> <u>Fiscal 2005</u>
01100 General Fund	\$ 916,054	3.0%	\$ 811,024	2.5%	\$ 810,898	2.5%
02069 Natural Resource Worker	-	-	150,000	0.5%	150,000	0.5%
02081 Icdm Conference	-	-	-	-	-	-
02242 Contracts From Srs	-	-	-	-	-	-
02245 Jobs For Mt'S Graduates (Jmg)	-	-	-	-	-	-
02258 Employment Security Account	4,609,757	15.0%	4,028,861	12.6%	4,029,192	12.6%
02288 Mjip Subgrants/Contracts	2,046,429	6.7%	2,046,429	6.4%	2,046,429	6.4%
02315 Dli Info Exchange	62,636	0.2%	62,636	0.2%	62,636	0.2%
02455 Workers' Comp Regulation	62,659	0.2%	65,877	0.2%	69,857	0.2%
02949 Mjip Subgrants/Private Funds	-	-	-	-	-	-
02951 Icdm Conference	-	-	-	-	-	-
02965 Jmg Private Donations - Nb	-	-	-	-	-	-
03124 Employment Trng Grants	2,158,232	7.0%	2,178,510	6.8%	2,177,483	6.8%
03126 Job Trng Partnership Act	11,708,292	38.1%	11,708,292	36.6%	11,708,292	36.6%
03128 L & I Federal Funding	1,827,318	5.9%	1,258,234	3.9%	1,199,817	3.7%
03131 Osha Stat Prgm Fed.St Sdy	62,849	0.2%	66,000	0.2%	69,850	0.2%
03194 Research/Analysis/Soicc	942,816	3.1%	939,184	2.9%	966,546	3.0%
03297 Labor And Industry Veteran Gra	819,175	2.7%	860,000	2.7%	860,000	2.7%
03682 Wagner Peyser	5,524,649	18.0%	5,549,259	17.3%	5,549,529	17.3%
03692 Alien Labor Certification (Alc)	-	-	60,000	0.2%	60,000	0.2%
03693 Wrk Opportunities Tx Crdt/Wote	-	-	79,000	0.2%	79,000	0.2%
03694 Trade Adjustment Assist/Nafta	-	-	1,055,445	3.3%	1,055,445	3.3%
03954 Ui Administrative Grants	8,709	0.0%	-	-	-	-
03967 Ui Reed Act	-	-	1,100,527	3.4%	1,100,300	3.4%
06051 Montana Career Info System	-	-	-	-	-	-
06551 Rental Recharges	-	-	-	-	-	-
06562 Dli Special Projects	-	-	-	-	-	-
Grand Total	<u>\$ 30,749,575</u>	<u>100.0%</u>	<u>\$ 32,019,278</u>	<u>100.0%</u>	<u>\$ 31,995,274</u>	<u>100.0%</u>

Workforce Services Division operations for the biennium are funded with general fund, state special revenue, and federal funds. General Fund supports the Jobs for Montana's Graduates, Displaced Homemaker, Job Registry, and Apprenticeship and Training programs. General fund support to the Apprenticeship and Training program has been reduced from base year expenditures in accordance with the department's overall general fund reduction applied by the Office of Budget and Program Planning. State special revenue includes \$8.1 million in Employment Security Account (ESA) funding and \$4.1 million in Workforce Investment Act subgrants and contracts. Federal funds include \$23.4 million in Workforce Investment Act funds, \$13.6 million in federal Labor and Industry funds (including Wagner-Peyser funds), and \$4.4 million in employment training grants. New for this biennium is the addition of \$2.2 million in federal Reed Act funds to the division's funding structure, which is a continuation of a funding switch first applied during the 2003 special session. This fund switch (DP 7001, below) reduces ESA funding within WSD by \$1.1 million in each year of the biennium and replaces it with a like amount of Reed Act funding. For more information on this fund switch, please see the LFD Issue following the narrative for DP 7001 under New Proposals.

Federal funding formulas remain basically the same as in previous biennia, with funding determined by the state's ranking amongst other states within several economic categories. These categories include the number of unemployed, the unemployment rate, and the number of residents considered economically disadvantaged.

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These funding formulas provide an anomaly for state service providers relying on this funding. Montana's economy has recently been less volatile than the national economy due to our reliance on income sources other than the high-tech markets that have played a major role in the recent national economic surges and downturns. The result is that as economic conditions improve, Montana's gains are less than the national average. Therefore, Montana's relative standing among other states decreases, in turn, increasing allotted funding. As economic conditions deteriorate, the opposite proves true - although economic measures are also decreasing, Montana's relative standing among other states actually improves, in turn decreasing allotted funding. The department states that recent national and local economic conditions have shown the potential for a decrease in federal funding levels. If that position will maintain, and to what extent, is unknown at this time. To date, the department has been able to forecast expenditures and postpone non-critical purchases in order to continue providing requested services during higher-need, lower-funding years, and then 'catch up' during the lower-need, higher-funding years.

Program Issues

Employment Security Account

The Employment Security Account (ESA) was established by the 1983 legislature as a way to address then-insufficient federal funding. The intent of the ESA was to maintain delivery of employment services through, and prevent the closure of, rural Job Service Centers. At that time, the ESA was funded through an assessment of 0.10 percent on all taxable wages paid by employers. The 1999 legislature passed HB 282, which raised the assessment to its current level of 0.13 percent.

Prior to 1989, most of the revenues collected into the ESA were transferred into the Unemployment Insurance Trust Fund, as allowed by statute. Since 1989, the ESA has been used primarily to maintain the current level of employment services. However, to facilitate general fund relief in the August, 2002 Special Session, use of the ESA was expanded. Most of the ESA funding budgeted directly for the local job service centers was replaced with federal Reed Act funding, and the freed up ESA funds were used to replace general fund in several programs. Additionally, for the 2005 biennium, the executive proposes to continue a portion of the fund switch to replace general fund in the Youth Challenge program, within the Department of Military Affairs, with ESA funding. Although the overall level of expenditures from the ESA has not changed, these funding switches have still established a precedent for future use and expansion of the fund. Figure 1 shows changes in use of the ESA through fiscal 2000 (first year of 0.13 percent assessment), fiscal 2002 (base year), fiscal 2003 (includes special session fund switches), and fiscal 2004 (executive budget proposal).

Figure 1

Actual and Proposed Use of
Employment Security Account

	Fiscal Year			
	2000	2002	2003	2004
<u>Services Traditionally Funded by ESA</u>				
Workforce Services Division Operations	\$3,619,406	\$4,407,199	\$608,250	\$3,599,473
Apprenticeship and Training	241,106	282,503	330,752	343,982
Employment Relations Division	762,451	810,620	846,718	880,587
Legal/Hearings Bureau	243,087	256,600	289,481	301,060
Research and Analysis Bureau	74,143	107,601	96,105	99,949
Unemployment Insurance Division	267,371	270,153	295,754	301,670
Subtotal	\$5,207,564	\$6,134,676	\$2,467,060	\$5,526,721
<u>Other Services</u>				
Jobs for Montana's Graduates	-	-	532,988	-
Apprenticeship Grants	-	-	140,000	-
Displaced Homemakers	-	-	219,765	-
Job Registry	-	-	18,808	-
DPHHS - Voc. Rehab. - Section 110	-	-	1,182,264	-
DPHHS - Voc. Rehab. - Extended Employment	-	-	782,935	-
Military Affairs - Youth Challenge Program	-	-	1,123,240	1,131,049
MT School for the Deaf and Blind	-	-	111,000	-
Subtotal	\$0	\$0	\$4,111,000	\$1,131,049
Accounting Adjustments	-	-	781,912	-
Total ESA Expenditures	<u>\$5,207,564</u>	<u>\$6,134,676</u>	<u>\$7,359,972</u>	<u>\$6,657,770</u>

The ESA is established in 39-51-409 MCA. There are no statutory or administrative limitations on use of the ESA. However, to gain support for the increase in the ESA assessment in 1999, the department states that it made assurances to the employers that the department would strive to use the ESA only to maintain established levels of services already provided with the ESA without expanding the services. Additionally, the programs funded during the August 2002 Special Session, while expanding the use, stayed within the executive's guidelines of providing services that enhanced or expanded Montana's available workforce. Therefore, discussions on the use of the ESA will tend to be philosophical in nature.

To determine allocation of the ESA, the legislature will need to decide on the philosophy it wishes to apply to using funds from the account.

If the legislature wishes to stay within the precedent established during creation and subsequent modification of statute authorizing the ESA, programs funded would include those funded in the base year, which are shown in the fiscal 2002 column in figure 1.

If the legislature wishes to create general fund savings by expanding use of the ESA while maintaining a focus on enhancing or expanding Montana's available workforce, the following state government programs, currently funded with general fund in the amounts indicated, could be considered for ESA funding:

- The state cost-offset grants for Apprenticeship and Training - \$140,000
- Jobs for Montana's Graduates - \$519,000
- Displaced Homemaker - \$235,000
- Job Registry - \$17,000
- Youth Challenge program - \$1.1 million
- Vocational Rehabilitation services administered by the Department of Public Health and Human Services - \$2.4 million

- o Education, training and work related services funded with general fund counted as Temporary Assistance for Needy Families (TANF) maintenance of effort (MOE) administered by the Department of Public Health and Human Services - \$9.2 million

If the legislature wishes to create general fund savings while applying no limitations to the use of ESA, then most, if not all, programs supported all or in part by general fund could be eligible for ESA support.

The decision of where to use ESA funding involves three other factors:

- o Whether the legislature wishes to continue the programs proposed for funding with the ESA by the executive, and at what level.
- o The corollary impact of increasing the amount of general fund available within an agency. For example, replacing general fund within one program in DPHHS could free up general fund to be used within the department to eliminate or mitigate certain service reductions currently proposed by the executive. The issue for the legislature then becomes whether mitigation of the service reductions in DPHHS is a higher priority than the uses of ESA proposed by the executive.
- o Based on current revenue projections and allocations in the executive budget, the stability of the ESA fund balance is questionable. Therefore, the ESA most likely cannot accommodate expanded uses without a backfill with other funding or a reduction in appropriations currently made from the account. For more information on the current and projected status of the ESA, please refer to the LFD Issue following DP 7001 later in this section.

Therefore, the following options for use of the ESA are available:

- o Maintain use of the ESA as funded in fiscal 2002. The Youth Challenge program would have to be funded with general fund or eliminated.
- o Use ESA funding with a broad definition of workforce development and expand use of the ESA into some/all of the programs identified above based on an overall consideration and prioritization of those programs for state funding.
- o Use ESA funding to replace general fund and mitigate other reductions based on an overall consideration and prioritization of those programs for state funding.

Program reductions and eliminations (general fund portion for the biennium) that the legislature could consider funding with general fund made available due to an ESA funding switch include:

- o Mental health services for children
- o Medicaid limitation of physicians visits to 10 per year, \$1.5 million
- o MIAMI (prenatal services), \$1.1 million
- o Big Brothers Big Sisters, \$0.4 million
- o Daycare for children at risk of abuse and neglect, \$0.7 million
- o In-home services for children at risk of abuse and neglect \$2.3 million
- o Meals on wheels, \$0.5 million
- o Hospice services, \$0.4 million
- o Visual services medical program, \$0.2 million
- o Extended employment and independent living services, \$1.0 million

Based on this discussion of the ESA, the following programs within the Workforce Services Division should be discussed in the context of the services provided and funding sources.

Apprenticeship and Training Program

The Apprenticeship and Training program helps provide aspiring electricians, plumbers, and other skilled workers the documented training (on-the-job and classroom) required per statute to become experienced and certified within their trade, in addition to providing them an opportunity to earn a wage while learning their trade. Montana’s Apprenticeship and Training program supports both union and independent employers. The program currently serves approximately 600 active employers/sponsors, and 1,000 registered apprentices.

Funding for the apprenticeship program is from the general fund and from the ESA. The 2001 legislature appropriated the apprenticeship program \$140,000 general fund and approximately \$300,000 state special revenue (ESA) in each year of the 2003 biennium. During the August, 2002 Special Session, general fund within the program was replaced entirely with ESA funding as part of a larger federal/state/general fund switch. For the 2005 biennium, the executive proposes to maintain ESA funding at the 2002 level, and reduce general fund by 55 percent to approximately \$63,000 per year.

Support for the Apprenticeship and Training program is provided in two main areas: program operations, and training cost-offset grants. ESA funding supports program staff and travel needed for oversight of the program, which includes establishing standards for, overseeing, and recording apprenticeship agreements between employer/employee; and developing new on-the-job training programs, as established in 39-6-101 MCA. During the base year, the department spent approximately \$280,000 to accomplish these responsibilities.

General fund provides state-supported cost offset for training-related instruction. During the base year (fiscal 2002) the apprenticeship program spent all of its \$140,000 general fund appropriation on training-related instruction funding, supporting instructors in 20 union and independent programs, and correspondence course work for apprentices in smaller, independent programs. 16,342 hours of instructor co-pay and 926 correspondence courses were paid for in fiscal 2002.

Therefore, reducing or eliminating general fund support without a backfill from the ESA will reduce the amount of cost-offset grants offered by the program. Employers and/or apprentices would have to pay a larger share of classroom instruction and correspondence classes themselves. If the current situation represents a balance between available workforce, available jobs, and the economic incentive for employers to employ apprentices, it can be expected that a reduction in cost-offset grants will eventually result in a lower number of employers/apprentices registered with the program, and a decrease in the available workforce. However, the specific impacts are difficult to project and can be expected to vary based on economic conditions.

There are three primary issues the legislature should consider when determining continuation of and/or funding level for the program in the 2005 biennium.

1) Is the state support of the Apprenticeship and Training program consistent with support given to other education and training programs within the state?

To answer this question, it is helpful to find a program for comparison. One example, which may be comparable, is the College of Technology (formerly Vocational-Technical) program within the Montana University System. Although many differences can be found, both programs support specialized training, over a period of years, which culminates in an individual being trained/certified to perform a trade. Using this example, it can be argued that some level of state support for the Apprenticeship and Training program is not inappropriate, although the level of support and program beneficiaries (employers, employees) are not entirely similar.

2) Should the state provide administrative oversight and program assistance for the Apprenticeship program?

As stated above, statute currently requires the department to provide program oversight. Consequently, reducing or eliminating program oversight would require a statutory change. Elimination of state oversight would move responsibility for apprenticeship agreements and training programs to the individual employers or the trade organizations. Consistency among trades or possibly among individual employers/sponsors would not be maintained unless oversight was assumed by a central organization, perhaps a trade organization or a licensing board (this would expand the responsibilities of the licensing boards significantly).

3) Should the state provide training cost-offset grants to the employers, or should the apprentice pay for a portion of their training?

The Apprenticeship and Training program works on a partnership. The apprentice agrees to work for the employer and successfully complete all tasks and training, and the employer agrees to pay the apprentice and provide both on-the-job and classroom training. Registered apprentices earn a staggered wage from the employer. A first-year apprentice earns approximately 40 percent of the average journeyman wage, and that percentage increases as the apprentice's experience increases. Figures provided by the department place the average apprentice gross annual wage at over \$31,000 per year, making this one of the few state-supported training

programs structured so the participant earns a wage while receiving training at zero or minimal expense. For comparison purposes, \$31,000 per year is slightly above 200 percent of the federally-defined poverty level for a family of three.

Generally, employers pay all training-related costs, although there are exceptions across the various trades. To this effect, the program is 100 percent subsidized for the apprentice, although not all of that support comes from the state. However, an option exists to eliminate the state support for training costs, and encourage or require the apprentices to pay a portion of their training. With approximately 1,000 apprentices across the state, elimination of the state cost-offsetting grants could be negated if each apprentice were to contribute \$140 each year for their training. If costs of program oversight were included, the approximate annual cost to an apprentice would be \$425, or 1.4 percent of the apprentices' average gross wage. In comparison, \$425 is less than the average cost for four semester hours at a College of Technology school within the Montana University system. Requiring apprentices to pay for a portion of their training would actually make the Apprenticeship and Training program a closer comparison to the College of Technology program used as an example in question one above.

Options:

- Continue both functions of the Apprenticeship and Training program – program oversight and training cost offset for employers
- Eliminate or reduce the program oversight portion of the program, which would require a change in statute that currently mandates the program oversight
- Eliminate cost-offset support to employers and encourage or require apprentices to pay a portion of their training

Job Registry

The Job Registry program was created under the State Employee Protection Act (Title 2, Section 18, part 12, MCA), with an intent of helping qualifying state employees regain employment with the state of Montana. Qualifying employees are defined as those displaced from their jobs through no fault of their own (statutorily qualifying circumstances include reductions-in-force, privatization, reorganization, or other actions by the legislature). Displaced state employees seeking reemployment within state government do not qualify for federal Workforce Investment Act funding, due to a technical requirement to seek employment with a new employer. Services to employees include notification of job announcements for one year after termination and inclusion in a special job registry for two years. Most staff time is now devoted to the review of new state vacancy announcements and the subsequent identification of openings for which individuals on the registry possess minimum qualifications, which is a mandatory provision of the State Employee Protection Act.

Since fiscal 2000, the average number of individuals on the registry has ranged from 32 to 14. At the end of fiscal 2002, there were 12 ex-state employees on the registry. In fiscal 2002, only three individuals on the job registry were placed back into state government.

The 2001 legislature funded the Job Registry Program with approximately \$37,000 general fund in each year of the 2003 biennium. The fiscal 2003 funding level was effectively reduced to approximately \$16,000 as a result of the Governor's expenditure reductions in the summer of 2002. The executive has carried those reductions into the 2005 biennium, and proposes to fund the Job Registry program at a level of approximately \$17,000 general fund each year.

There are three primary issues when determining whether and/or at what level the program should be funded in the 2005 biennium.

- There have historically been a low number of registrants and successful placements, making the program high cost on an individual basis. However, budget constraints in the 2005 biennium could increase the number of employees qualifying for the service, in addition to the executive proposal to reduce program funding by 54 percent from the fiscal 2002 level.
- Current program activities of tracking position openings and notifying employees of applicable openings are services the employees could and might be expected to perform themselves. Presently, there is not sufficient funding to increase services to qualifying employees.

- Program effectiveness is hindered by the lack of an enforceable requirement for agencies to hire personnel from the list.

Options for funding the Job Registry program include:

- Eliminate program funding and the program itself, which would require a change in statute that currently mandates the Job Registry program
- Amend statute to provide stricter requirements for agencies to hire from the registry, and fund the program at a level to allow staff to adequately manage the new program services. One option would be to fund at the fiscal 2002 level
- Accept the executive proposal for program funding

Jobs for Montana's Graduates

The Jobs for Montana's Graduates (JMG) program was created in 1990, with intent to assist Montana high school students to stay in school, graduate, and successfully transition from school to work. Students targeted for JMG enrollment include those who:

- have experienced high absenteeism or school suspension;
- possess little or no work experience;
- have limited social and communication skills;
- score average or below average academically; and/or
- have no specific post-graduation plans.

JMG is offered at 44 schools and programs, including 10 schools located on Montana's Indian Reservations, eight alternative schools, and two out-of-school programs (the Montana National Guard Youth Challenge program and the Yellowstone Youth Academy). In the 2002-2003 school year, JMG projects to serve approximately 900 students in grades 9 through 12.

Performance standards measured by the department for the 2001-2002 school year are:

- Senior graduation rate – 88.1 percent
- Senior full-time placement rate – 76.71 percent (includes military)
- Average wage at placement - \$7.17
- Non-senior return to school rate – 80.6 percent

JMG is funded by the executive with general fund at approximately \$519,000 each year of the 2005 biennium, which equates to an approximate cost per student of \$576. This funding supports three department staff for program start-up, guidance, and oversight, including teacher training twice yearly (approximately \$345,000 in fiscal 2002); and direct funding to schools to implement the program (\$162,500 in fiscal 2002). Local school districts provide a majority of program funding through the provision of teachers, facilities, and supplies for the classes. Students may also participate in fundraising to support local program costs. During the August 2002 special session, general fund within JMG was replaced completely with funding from the ESA account, as part of a larger general fund/state/federal funding switch. Program funding levels were not reduced.

There are two primary issues when determining continuation and/or funding level for the JMG program.

1) Does the legislature want to use general fund to provide a workforce development program? If so, is this one of the legislature's priorities for funding?

The JMG program is one of at least two state-supported programs serving youth meeting a program definition of 'at risk.' Specifically, the JMG program is designed to keep youth in school through graduation and prepare them for employment or post-secondary education, while the Department of Military Affairs' Youth Challenge program is designed to impact youth after they have dropped out. These programs, through use of general fund and historical/projected use of the ESA, compete directly for funding with other programs as identified in the Program Issue narrative on the ESA. If the program is eliminated, affected youth can potentially be served through the WIA Title IB youth program or the Youth Challenge program, both of which provide assistance in

gaining life/employment skills, and a high school diploma or GED, although in varying levels of structure and intensity. For more information on those programs, please see the LFD Issue in the narrative for the Youth Challenge program within the Department of Military Affairs.

One option to reduce general fund within the program without reducing program services would be to replace some or all of the general fund with state special revenue from the ESA account. However, as with general fund, the decision to use ESA funding for JMG should be preceded by a discussion as to how the program falls within state priorities for providing workforce development services. Additionally, given the projected status of the ESA, replacing general fund with ESA funding is most-likely a short-term proposal contingent on backfilling the ESA with other funding. For more information on ESA usage and the current and projected status of the ESA, please refer to the LFD Issue following DP 7001 later in this section.

2) What functions of JMG should be state-supported versus supported within the local community?

As stated above, state funding supports both program oversight and direct funding to participating schools. The majority of school grants fall in the \$3,000 to \$4,000 range, with a handful of grants at the \$8,000 to \$10,000 level. If the legislature desires to provide centralized guidance and assistance, yet reduce the general fund commitment, one option is to eliminate the direct funding to schools, which would require the local school district and/or community to provide all local program funding - a clear shift of program costs. This however, would save \$162,500 general fund each year.

Similarly, the legislature could eliminate all program oversight and staff assistance, and provide only the direct funding to schools. This option would not cause an overt increase in local community costs, but could lead to degradation of the program through lack of accountability and consistency across schools. This option would save \$345,000 per year.

Options:

- Eliminate the program and associated funding
- Eliminate that portion of funding designated for direct funding to schools
- Eliminate that portion of funding designated for program oversight and staff assistance
- Fund the program at the executive-recommended level with general fund
- Replace some or all general fund with ESA funding

Displaced Homemaker

The state Displaced Homemaker program is established in Title 39, Chapter 7, part 3, MCA, with a stated legislative intent to "provide necessary counseling, training, jobs, services, and health care for displaced homemakers so they may achieve independence and the economic security vital to a productive life." Eligible displaced homemakers must be Montana residents 18 years or older, and meet the following criteria:

- Displacement through event such as divorce or death of a spouse;
- Dependent on public assistance or income of a relative, but no longer supported by that income;
- A parent whose dependent children receive Aid to Families with Dependent Children (AFDC) and will be ineligible to receive those benefits within two years of application to the program;
- Unemployed or underemployed and experiencing difficulty obtaining employment or suitable employment; or
- A criminal offender.

Displaced homemakers who have been dependent upon public assistance may also be served through the WIA Title IB adult program.

Displaced homemakers may be eligible for services under the WIA Title IB dislocated worker program if they:

- o have been providing unpaid services to family members in the home;
- o have been dependent upon the income of another family member, but are no longer supported by that income; and
- o are unemployed or underemployed and experiencing difficulty in obtaining or upgrading employment.

Both the WIA Title IB and Dislocated Worker programs are federally-funded programs. The department reports that contracted Displaced Homemaker providers actively coordinate their efforts with WIA and non-WIA agencies within their areas of coverage to allow individuals to benefit from collaboration and dual enrollment when appropriate.

Statute allows the Commissioner of the Department of Labor and Industry to contract with or make grants to public or private nonprofit organizations to establish, organize and administer programs which may include services such as:

- o Job counseling services
- o Job training and placement services
- o Referral to or development of programs which provide information and assistance on health care, financial matters, nutrition, and legal problems
- o Support services, such as child care, transportation assistance, or grants for education
- o Development of outreach programs to serve rural areas where a need has been identified

Approximately 90 percent of program funding is spent directly on contracts with Displaced Homemaker providers, with 10 percent being held by the department to cover administrative functions. The 2001 legislature appropriated \$235,605 general fund each year for the 2003 biennium. This funding allowed the department to contract with 10 service providers in fiscal 2002. In fiscal 2002, Montana spent approximately \$233,000 (including administration costs) on 164 enrolled clients. Of these, 66 were exited to unsubsidized employment, placing the cost per successful client at approximately \$3,500. Due to the wide variance of services provided and situations experienced by all job service center clients, it is difficult to compare this number to the costs of services provided by the federal WIA funding stream.

In fiscal 2003, the Governor's mandated expenditures reductions resulted in the department canceling the contract with the Great Falls Job Service Center, leaving nine providers serving Billings, Belgrade, Butte, Havre, Helena, Kalispell, Lewistown, Miles City, and Missoula. Additionally, during the August 2002 special session, general fund within the Displaced Homemaker program was replaced completely with funding from the ESA account, as part of a larger general fund/state/federal funding switch. For the 2005 biennium, the executive proposes to continue the program contracts at the fiscal 2003 level.

There are three primary issues to consider when determining the continuation of and level of funding for the Displaced Homemaker program.

1) The Displaced Homemaker program serves a relatively small number of clients with a moderate level of success and potentially duplicates services under the WIA.

The program serves a relatively small number of clients, with a success rate of 40 percent and a cost per successful client of approximately \$3,500 in fiscal 2002. These clients may have also been eligible for and received services through the WIA Title IB adult or dislocated worker programs, although data is not maintained that readily identifies which program provided services to individual clients. Eliminating the program would result in a complete loss of service for individuals who do not qualify for the WIA Title IB adult or dislocated worker programs and a reduction in service for those who do qualify for at least one of those programs. The department states that an expected decrease in federal WIA funding (for more information on the decrease, please see the LFD Comment immediately following the program narrative above), will stretch the ability of the WIA Title IB and Dislocated Worker programs to provide additional coverage to qualifying displaced homemakers.

2) The Displaced Homemaker program should be part of a larger discussion on use of general fund and the ESA, including an overall prioritization of services funded with general fund and/or ESA.

As stated above in the Program Issues narrative on the ESA, there are several inter-related issues to be decided when allocating general fund and ESA, including the need for prioritization of services competing for general fund and/or ESA funding. Consequently, one option to reduce general fund within the program would be to

replace some or all of the general fund with state special revenue from the ESA account. However, as with general fund, the decision to use ESA funding for the Displaced Homemaker program should be preceded by a discussion as to how the program falls within state priorities for providing workforce development services. Additionally, given the projected status of the ESA, replacing general fund with ESA funding is most-likely a short-term proposal contingent on backfilling the ESA with other funding. For more information on ESA usage and the current and projected status of the ESA, please refer to the corresponding writeups in this section.

3) *The number of contracts can be adjusted based on selection of criteria for awarding contracts to service providers.*

As stated above, in fiscal 2002, the state spent approximately \$233,000 to service 164 clients. If desired, one option to reduce funding to the program would be to direct the department to limit the number of contracts with service providers based on identification of those service providers with:

- the largest number of clients
- the largest number of clients not qualifying for federal assistance
- the largest number of clients living in rural areas with limited access to other services, or
- other legislatively-determined criteria

Options:

- Eliminate program funding, which would require a statute change eliminating the state’s responsibility to provide these services
- Reduce program funding to a legislatively-determined level based on the recommendation in issue three
- Accept the executive-recommended funding level
- Replace some or all general fund with ESA funding

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					1,452,151					1,460,543
Vacancy Savings					(501,909)					(502,225)
Inflation/Deflation					27,821					36,795
Fixed Costs					128,453					88,428
Total Statewide Present Law Adjustments					\$1,106,516	\$1,083,541				
DP 12 - Operating Increase	0.00	(75,415)	3,174	94,167	21,926	0.00	(75,414)	3,291	92,992	20,869
DP 18 - Natural Resource Worker Scholarship Pg. - SB322	0.00	0	141,261	0	141,261	0.00	0	141,289	0	141,289
Total Other Present Law Adjustments										
	0.00	(\$75,415)	\$144,435	\$94,167	\$163,187	0.00	(\$75,414)	\$144,580	\$92,992	\$162,158
Grand Total All Present Law Adjustments					\$1,269,703	\$1,245,699				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 12 - Operating Increase - This request contains two separate changes:

- The executive requests an increase in operating expenses to accommodate an increase in the agency's indirect cost allocation plan. Funding is primarily from federal special revenue (\$187,159 over the biennium), with smaller amounts from state special revenue (\$6,465 over the biennium) and general fund (\$3,616 over the biennium).
- The executive proposes to reduce general fund within the Apprenticeship and Training program by \$77,222 in fiscal 2004 and \$77,223 in fiscal 2005. Base year general fund expenditures within the program were \$140,000. This reduction would fund the Apprenticeship and Training program at a reduced level of general fund grants

(approximately \$63,000 per year), but would not affect the level of ESA funding in the program, which is approximately \$280,000 per year.

**LFD
COMMENT**

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Commissioner's Office/Centralized Services Division.

**LFD
COMMENT**

This reduction is applied to meet the department's mandated general fund reduction, based on a continuation of the Governor's fiscal 2003 expenditure reductions and reductions made during the 2003 special session. The department took the reduction entirely in this division, within the Apprenticeship and Training program. For more information on the Apprenticeship and Training program, please see the Program Issues narrative above.

DP 18 - Natural Resource Worker Scholarship Pg. - SB322 - The executive requests additional state special revenue authority to accommodate the Natural Resource Worker Scholarship Program created by SB 322 in the 2001 session. Funding will not be established until fiscal year 2004 so there were no expenditures in the base year. The 0.25 FTE allocated to the program is funded in the adjusted base, so this request equals the balance of the \$150,000 allocated to the program.

**LFD
COMMENT**

SB 22, passed by the 2001 legislature, created the Natural Resource Workers' Education Program and funds the Natural Resource Workers' Tuition Scholarship Account from Resource Indemnity and Ground Water Assessment tax collections. The scholarship account is funded through a transfer from those collections upon certification by the Governor to the Secretary of State that the balance of the Resource Indemnity Trust Fund has reached \$100 million. Statute directs a transfer of \$150,000 in the first year and transfers in subsequent years only to bring the balance of the account back up to \$150,000, including any donations or grants the department may have received to apply toward scholarships. Qualifying individuals are to be awarded tuition scholarships defined in 39-10-103, MCA as "tuition and mandatory fees, excluding room and board, rounded up to the nearest dollar, and a book allowance that are not covered by the federal Pell grant program, federal supplemental educational grant program, or Workforce Investment Act of 1998." The department started awarding scholarships for the fall semester of 2002. Through November 1, 2002, 3 out of 26 applicants had been awarded scholarships. The department states that most applicants did not qualify due to either being covered under another program (usually WIA), or not meeting the minimum work requirements within a natural resources industry field.

Given the short time with which to evaluate the program, it is difficult to provide information which may help the legislature make a determination on the success and impacts of the program. It is also difficult to project future need and number of applicants for the scholarship in order to accurately determine the appropriate funding level for the scholarship account. Therefore, the legislature may wish to ask the department for an update during the 2003 session as to the program applicants and awardees for the 2003 spring semester.

Additionally, the ability of the Resource Indemnity and Ground Water Assessment tax collections to replenish the account may be in question. For further information, please refer to the narrative on the Resource Indemnity Trust within the Department of Natural Resources and Conservation.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7001 - ESA/Reed Act Fund Switch										
01	0.00	0	(1,100,527)	1,100,527	0	0.00	0	(1,100,300)	1,100,300	0
Total	0.00	\$0	(\$1,100,527)	\$1,100,527	\$0	0.00	\$0	(\$1,100,300)	\$1,100,300	\$0

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7001 - ESA/Reed Act Fund Switch - The executive proposes to replace \$1.1 million in ESA (state special revenue) funding each year of the biennium with a like amount of federal Reed Act funding. This funding switch is intended to allow the freed-up ESA funding to be used in the National Guard Youth Challenge program.

LFD ISSUE

On March 13, 2002, as a result of excess funds in the Federal Unemployment Tax Accounts, Congress authorized a one-time-only \$8 billion distribution to state accounts in the Unemployment Trust Fund. Montana's share was \$18.6 million. In a May 9, 2002 letter, the federal Department of Labor stated "This distribution gives states an opportunity to make significant improvements in unemployment insurance (UI) and employment service (ES) operations in areas where grant funds have not been sufficient." This letter also listed suggested uses for the Reed Act funding, including:

- revolving funds for UI and ES automation
- UI and ES performance improvement
- reducing UI fraud and abuse
- improvement in UI claims filing and payment methods
- one-stop administration

During the August 2002 Special Session, the legislature used \$4.1 million in Reed Act funds to replace a like amount of ESA funding within WSD. The freed-up ESA funding was in turn used to replace general fund within the Departments of Labor and Industry, Military Affairs, and Health and Human Services; and the Montana School for the Deaf and Blind. For the 2005 biennium, the executive proposes using \$1.1 million of Reed Act funding to replace the same amount of ESA funding, which will in turn be used to fund the state match portion of the National Guard Youth Challenge program funding. The department has budgeted the remaining Reed Act funds for administration of the UI program, ES administration, and bond payments.

Pertinent Issues Concerning use of Reed Act Funds

1) Reed Act funds have strict and complicated guidelines for their use.

Citing federal law (section 209 of the Temporary Extended Unemployment Compensation Act of 2002), the US Department of Labor (DOL) provided guidance stating that Reed Act funds can only be used for UI administration, UI benefits, and ES-related activities. In coordination with the US Department of Labor, these activities were defined by the department as those activities allowed under the Wagner-Peyser Act. Based on this assessment, during the August, 2002 Special Session, the department identified approximately \$4.7 million in budgeted ESA expenditures that would potentially be eligible for replacement with Reed Act funds. It appears the department has applied a reasonable standard for determining the maximum amount of ESA funding which could be replaced by Reed Act fund. Therefore, use beyond the identified \$4.7 million could result in unauthorized use of the state Reed Act distribution.

**LFD
COMMENT
(continued)**
2) Distribution is one-time-only, with future distributions unplanned and uncertain.

Of the \$18.6 million received by Montana, \$5.2 million, or 28 percent, has been spent or budgeted for funding switches to address the general fund shortfall. This 28 percent has only maintained the current level of services, and has not directly fostered improvements to either UI or ES operations. Additional use of Reed Act funds (including those in the executive 2005 biennium budget) to address the general fund shortfall will decrease the department's ability to make automation and performance improvements to UI and ES processes. Additionally, any funding switch reliant on Reed Act funding is a short-term proposal and does not provide a long-term funding source, nor does it address issues of prioritization of programs for general fund support.

3) UI performance indicators show need for improvement.

The department has identified areas for improvement within UI operations, with one of the most critical being payment timeliness. Since the last formal reporting period ending March 31, 2002, the department reports a decrease in nearly all of the 12 Tier 1 reporting measures. Additionally, the UI division reports a workload increase (based on claims filed) of 16.3 percent from fiscal 2001 to fiscal 2002, and an increase of 29.5 percent from calendar 2001 to calendar 2002. Phone centers have not been able to handle customer calls in a timely manner, creating access issues for the public. The department is responding by attempting to hire an additional 9.0 FTE, as well as moving ahead with implementation of internet-based claims filing.

Pertinent Issues Concerning use of ESA Funds
1) Use of the ESA is expanding.

- As identified in the program issue narrative on the ESA, use of the ESA has expanded beyond the original uses for the account. Use of the ESA should be based on the philosophical approach taken by the legislature.

2) The Stability of the ESA fund balance is questionable.

Figure 2 shows historical and projected revenues, expenditures, and ending fund balance for the ESA.

Figure 2						
Account Review						
Employment Security Account						
	Fiscal Year					
	Actual			Projected		
	2000	2001	2002	2003	2004	2005
Beginning Fund Balance	\$353,929	\$384,353	\$1,392,752	\$1,429,344	\$573,579	\$446,799
Revenues	\$5,315,242	\$6,231,276	\$6,195,707	\$6,504,207	\$6,530,990	\$6,547,211
Expenditures *	<u>(5,284,818)</u>	<u>(5,222,877)</u>	<u>(6,159,115)</u>	<u>(7,359,972)</u>	<u>(6,657,770)</u>	<u>(6,886,069)</u>
Ending Fund Balance	<u>\$384,353</u>	<u>\$1,392,752</u>	<u>\$1,429,344</u>	<u>\$573,579</u>	<u>\$446,799</u>	<u>\$107,941</u>

* Fiscal 2002 expenditures include a one-time fund balance adjustment of (\$24,439).

The projected ESA fund balance at the end of the 2005 biennium is \$107,941, or 2 percent of overall budgeted expenditures. Based on department projections, and because on-going expenditures exceed revenues, the account fund balance will become negative in the 2007 biennium. Due to the uncertainty of revenues, which are based on taxable wage, and therefore, based on economic conditions in the state, it is uncertain as to actual timelines for when an account shortfall may need to be addressed (the fiscal 2002 ending fund balance exceeded projections by \$500,000). However, assuming projections to be relatively accurate, there appears to be no room to expand use of the ESA without backfilling it or driving the account negative prematurely.

**LFD
ISSUE
(continued)**

3) *Many programs are potentially competing for general fund and/or ESA usage, including programs in the departments of Labor and Industry, Military Affairs, and Health and Human Services.*

As discussed in the program issues narrative above, allocation of ESA funding should be based on a discussion of the legislative approach for use of the ESA, along with a concerted prioritization of all programs identified for potential ESA funding.

Therefore, when addressing this funding switch, the legislature has several options:

- Do not accept the Reed Act/ESA funding switch proposal, and fund all programs as provided in the base year (Youth Challenge program is one-time only, and therefore not funded in the base year).
- Do not accept the funding switch proposal. Prioritize all candidates for ESA/general fund use and fund accordingly, based on that overall prioritization, including discontinuation of programs, if desired.
- Accept the executive recommended fund switch.

Proprietary Rates

Program Description

Montana Career Information System (06051)

The Montana Career Information System (MCIS) has been active in Montana since 1980. The purpose of MCIS is to deliver current career and labor market information to Montanans in an easy-to-use, easy-to-understand format. This is the only career information delivery system in the country that has specific Montana labor market information included in each file. MCIS is currently being used at over 200 sites throughout the state by a wide variety of users: job service offices, vocational rehabilitation offices, high schools, community colleges, universities, tribal colleges, education and training agencies, and adult education programs.

Revenues and Expenses

The Montana Career Information System (MCIS) is funded by user fees not to exceed \$1,500 per site. Discounted rates are available for small schools and groups. High schools with enrollments over 200, all post-secondary schools, and all agencies and businesses are charged \$1,150 per year. Smaller high schools are charged \$575-\$977 depending on enrollment, and school districts are charged \$2,000 per year. Software for Macintosh computers is an additional \$200, and additional licensing for a middle school, if the high school has MCIS, is \$200 per year.

Rate Explanation

The goal of MCIS management is to cover the operating costs of the program while recovering sufficient revenue to maintain 60 days of working capital, which equals approximately \$24,000. This working capital amount and the recovery rates have been determined necessary by the department, due to timing issues between incurring of expenses and the provision of services/reimbursement from the schools.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06051	Montana Career Info System	66020	Dept. of Labor & Industry	Job Service

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Charges for Services	-	-	-	173,590	175,667	175,143
Net Fee Revenue	135,686	162,772	173,590	173,590	175,667	175,143
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	6	-	-	-
Total Operating Revenues	135,686	162,772	173,596	173,590	175,667	175,143
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	135,686	162,772	173,596	173,590	175,667	175,143
Operating Expenses:						
Personal Services	49,672	80,073	78,112	87,890	87,872	87,628
Other Operating Expenses	57,126	84,503	80,118	70,830	87,795	87,515
Miscellaneous, operating	8,912	12,971	10,574	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	115,710	177,547	168,804	158,720	175,667	175,143
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	115,710	177,547	168,804	158,720	175,667	175,143
Operating Income (Loss)	19,976	(14,775)	4,792	14,870	-	-
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	19,976	(14,775)	4,792	14,870	-	-
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	6,377	30,033	15,258	20,050	34,920	34,920
Net Income (Loss)	19,976	(14,775)	4,792	14,870	-	-
Retained Earnings/Fund Balances - June 30	26,353	15,258	20,050	34,920	34,920	34,920
60 days of expenses (Total Operating Expenses divided by 6)	19,285	29,591	28,134	26,453	29,278	29,191

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	107.50	0.00	0.00	107.50	0.00	0.00	107.50	107.50
Personal Services	3,771,812	469,592	0	4,241,404	468,996	0	4,240,808	8,482,212
Operating Expenses	2,255,957	138,496	0	2,394,453	148,842	0	2,404,799	4,799,252
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$6,027,769	\$608,088	\$0	\$6,635,857	\$617,838	\$0	\$6,645,607	\$13,281,464
State/Other Special	283,213	21,742	0	304,955	21,742	0	304,955	609,910
Federal Special	5,744,556	586,346	0	6,330,902	596,096	0	6,340,652	12,671,554
Total Funds	\$6,027,769	\$608,088	\$0	\$6,635,857	\$617,838	\$0	\$6,645,607	\$13,281,464

Program Description

The Unemployment Insurance (UI) Division administers the state unemployment insurance law and related federal programs, which provide temporary, partial wage replacement to involuntarily unemployed individuals. The UI Division is organized into three bureaus: UI Benefits, UI Program Support, and UI Phone Claims. The UI Benefits Bureau manages special federal programs, provides training, oversees overpayment and fraud collections, and processes mail into the division's imaging system. The UI Program Support Bureau manages the Trust Fund, division budget, and information technology, provides data analysis, and assures program integrity. The UI Phone Claims Bureau has two phone centers (Billings and Helena) for claimants to file unemployment claims and employers to make UI related inquiries, and adjudicates disputed benefit claims.

Unemployment Insurance Division	
Major Budget Highlights	
○	Although not included in the HB 2 budget the Unemployment Insurance Division stands to lose federal Reed Act spending authority upon approval of executive recommended funding switches in the Workforce Services Division. For further information, see the LFD Issue for DP 7001 in the narrative for the Workforce Services Division
Major LFD Issues	
○	Issues/Options associated with the Reed Act funding switch. For more information, see the LFD Issue for DP 7001 in the narrative for the Workforce Services Division

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Unemployment Insurance Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02258 Employment Security Account	\$ 270,153	4.5%	\$ 289,955	4.4%	\$ 289,955	4.4%
02315 Dli Info Exchange	13,060	0.2%	15,000	0.2%	15,000	0.2%
03128 L & I Federal Funding	-	-	-	-	-	-
03277 U.I. Penalty & Interest	316,288	5.2%	350,000	5.3%	350,000	5.3%
03954 Ui Administrative Grants	5,428,268	90.1%	5,980,902	90.1%	5,990,652	90.1%
03967 Ui Reed Act	-	-	-	-	-	-
Grand Total	<u>\$ 6,027,769</u>	<u>100.0%</u>	<u>\$ 6,635,857</u>	<u>100.0%</u>	<u>\$ 6,645,607</u>	<u>100.0%</u>

The UI division is funded with state special revenue funds, including \$580,000 from the ESA, and federal funds, which are primarily UI Administrative Grants (\$12.0 million). During the 2005 biennium the division will also have access to federal funds as a result of Reed Act distributions. For more information on Reed Act funding, please see the LFD Issue following the narrative for New Proposal 7001 within the Workforce Services Division.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				639,602					638,975
Vacancy Savings				(176,460)					(176,429)
Inflation/Deflation				(11,566)					(11,309)
Fixed Costs				68,294					77,934
Total Statewide Present Law Adjustments				\$519,870					\$529,171
DP 4 - Increase in operating costs									
0.00	0	0	88,218	88,218	0.00	0	0	88,667	88,667
Total Other Present Law Adjustments									
0.00	\$0	\$0	\$88,218	\$88,218	0.00	\$0	\$0	\$88,667	\$88,667
Grand Total All Present Law Adjustments				\$608,088					\$617,838

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 4 - Increase in operating costs - DP 4 - Increase In Operating Costs - the executive requests increased federal special revenue authority for the following:

- o Fund increases to the department's cost allocation plan - \$42,000 each year;
- o Fund increased processing and printing through Department of Administration - \$40,000 each year; and
- o Per diem expenses for members of Board of Labor Appeals - \$6,400 each year.

LFD COMMENT

The per diem request equals the same level of expenditure the department incurred during the base year. However, this specific type of personal services expenditure is not automatically carried over into the base, and must be requested in its entirety as a present law adjustment.

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Commissioner's Office/Centralized Services Division

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	20.50	0.00	0.00	20.50	0.00	0.00	20.50	20.50
Personal Services	969,374	132,230	0	1,101,604	131,443	0	1,100,817	2,202,421
Operating Expenses	298,452	19,754	0	318,206	19,342	0	317,794	636,000
Total Costs	\$1,267,826	\$151,984	\$0	\$1,419,810	\$150,785	\$0	\$1,418,611	\$2,838,421
General Fund	159,270	13,547	0	172,817	13,816	0	173,086	345,903
State/Other Special	653,702	97,746	0	751,448	96,747	0	750,449	1,501,897
Federal Special	411,728	15,861	0	427,589	15,497	0	427,225	854,814
Proprietary	43,126	24,830	0	67,956	24,725	0	67,851	135,807
Total Funds	\$1,267,826	\$151,984	\$0	\$1,419,810	\$150,785	\$0	\$1,418,611	\$2,838,421

Program Description

The Commissioner's Office and the Legal and Centralized Services Division provide program direction, legal, administration, and support services to the department. Legal and Centralized Services provides the central support functions of the department through five bureaus: 1) Fiscal Support; 2) Technical Services; 3) Human Resources; 4) Hearings; and 5) Legal Services.

Commissioner's Office/Legal and Centralized Services Division	
Major Budget Highlights	
No major changes to mission or operations from 2003 biennium	
Major LFD Issues	
None	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Commissioner's Office/Csd							
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005	
01100 General Fund	\$ 159,270	12.6%	\$ 172,817	12.2%	\$ 173,086	12.2%	
02258 Employment Security Account	256,602	20.2%	230,054	16.2%	229,707	16.2%	
02315 Dli Info Exchange	543	0.0%	500	0.0%	500	0.0%	
02448 Building Codes State Spec Rev	58,073	4.6%	80,925	5.7%	80,808	5.7%	
02455 Workers' Comp Regulation	161,011	12.7%	203,906	14.4%	203,745	14.4%	
02824 Board Of Medical Examiners	64,537	5.1%	87,817	6.2%	87,677	6.2%	
02833 Board Of Nursing	58,783	4.6%	73,181	5.2%	73,064	5.2%	
02854 Bd. Of Real Estate Appraisers	-	-	-	-	-	-	
02941 Uninsured Employer Fund	54,153	4.3%	75,065	5.3%	74,948	5.3%	
03122 Eeoc & Hud	14,952	1.2%	16,224	1.1%	16,250	1.1%	
03128 L & I Federal Funding	-	-	-	-	-	-	
03954 Uj Administrative Grants	396,776	31.3%	411,365	29.0%	410,975	29.0%	
06546 Commissioner's Office/Csd	43,126	3.4%	67,119	4.7%	67,014	4.7%	
06547 L/Csd - Direct Charge	-	-	837	0.1%	837	0.1%	
06552 Pol Admin Services	-	-	-	-	-	-	
Grand Total	\$ 1,267,826	100.0%	\$ 1,419,810	100.0%	\$ 1,418,611	100.0%	

The division operations are funded from several sources:

- general fund, which pays expenses associated with hearings of Human Rights cases and CSD legal support to the Human Rights Bureau in the Employment Relations Division
- state special revenue funds from several accounts including the Employment Security and Workers' Compensation Regulation accounts, along with revenue from several licensing boards within the Business Standards Division
- federal funds, mainly from UI administration grants
- proprietary funds from the department internal cost allocation plan

The proprietary funds are based on legislatively approved rates, and are not appropriated in HB 2, and are therefore not shown in the table. For further discussion of the proprietary funds, see the Proprietary Rates narrative at the end of this section.

Present Law Adjustments													
-----Fiscal 2004-----					-----Fiscal 2005-----								
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds				
Personal Services				170,063					169,244				
Vacancy Savings				(45,577)					(45,545)				
Inflation/Deflation				(77)					44				
Fixed Costs				(3,628)					(4,256)				
Total Statewide Present Law Adjustments				\$120,781					\$119,487				
DP 11 - Misc. Operating Increase	0.00	7,079	16,037	5,994	31,203 *	0.00	7,079	16,119	6,007	31,298 *			
Total Other Present Law Adjustments				0.00	\$7,079	\$16,037	\$5,994	\$31,203 *	0.00	\$7,079	\$16,119	\$6,007	\$31,298 *
Grand Total All Present Law Adjustments								\$151,984 *					\$150,785 *

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 11 - Misc. Operating Increase - The executive requests increased authority for the following:

- additional personal services funding for positions filled since the budget snapshot was taken, with a higher salary than entry-level - \$19,000 each year
- increases to the department cost allocation plan - \$12,000 each year

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the Proprietary Rates narrative for this program.

Proprietary Rates

Program Description

Cost Allocation Plan (CAP) - The Commissioner's Office and the Legal/Centralized Services Division are partially funded through a cost allocation plan under which the various other divisions in the agency are assessed a percentage of their personal services costs to support centralized functions. The services provided through this accounting entity are administration, accounting, purchasing, budgeting, personnel, training, mail distribution, and information services.

Input/Output Control Operations Functions - The Legal/Centralized Services Division recovers costs of a unit called the Input/Output control Operations Function, which provides traffic control of data input, jobs for the mainframe computer system, and report output.

Revenues and Expenses

There are no changes in projected services from the 2003 biennium. The goal of program management is to assess costs of centralized functions equitably to all divisions while maintaining a 60-day working capital level of approximately \$360,000.

Rate Explanation

Cost Allocation Plan - The CAP rate is determined by dividing projected personal services expenditures on FTE not supported by CAP revenue by the projected revenue needed to perform centralized services required for the department.

Input/Output Control Operation Functions - Internal users are directly charged for the services received and are billed quarterly. Direct charges are for services that are easily identifiable and charged directly to the beneficiary of the service. Direct charges are estimated during the budget submission process, and actual costs incurred are charged to the appropriate division/bureau.

Significant Present Law

BSD Hearings - SB 445 transferred three programs from the Department of Commerce to the Department of Labor and Industry. Prior to being assumed by the Hearings Bureau within the Department of Labor and Industry, hearings for the Building Codes Division were performed by Agency Legal Services within the Department of Commerce. The Hearings Bureau did not take over these hearings until three quarters of the way through the base year. This increase will adjust the rate to bring projected revenues in line with projected expenditures.

Requested Language

The department proposes the following language for its CAP rate:

"Cost Allocation Plan (CAP)

It is the intent of the legislature that the rates charged for these function be the rates agreed upon by the United State Department of Labor federal cost negotiator. It is anticipated that the assessment will be as much as 10 percent and 12 percent of a program's actual personal services costs incurred in fiscal year 2002 and fiscal year 2003."

LFD COMMENT

The legislature sets the maximum rate that can be charged; therefore, the proposed language is not necessary. If the legislature wishes to specify the calculation of rates in addition to the maximum rate charged, the following language could be used: "The rates charged for these functions are the rates agreed upon by the United State Department of Labor federal cost negotiator, up to 10 percent and 12 percent of a program's actual personal services costs incurred in fiscal year 2002 and fiscal year 2003."

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06546, 06547, 06551, 06562, 06574	L&I Central Services	66020	Dept. of Labor & Industry	CSD

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Cost Allocation Plan	-	-	-	2,375,938	2,833,585	2,835,836
Net Fee Revenue	929,663	553,176	(846,939)	2,375,938	2,833,585	2,835,836
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	4,333	15,627	1,195,050	-	-	-
Total Operating Revenues	933,996	568,803	348,111	2,375,938	2,833,585	2,835,836
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	933,996	568,803	348,111	2,375,938	2,833,585	2,835,836
Operating Expenses:						
Personal Services	1,198,879	1,179,360	1,690,809	1,769,867	2,147,664	2,145,081
Other Operating Expenses	502,950	468,912	535,617	29,420	12,831	12,831
Miscellaneous, operating	27,235	24,199	37,372	576,651	673,090	677,924
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	1,729,064	1,672,471	2,263,798	2,375,938	2,833,585	2,835,836
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	1,729,064	1,672,471	2,263,798	2,375,938	2,833,585	2,835,836
Operating Income (Loss)	(795,068)	(1,103,668)	(1,915,687)	-	-	-
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(5,059)	(6,377)	-	-	-
Federal Indirect Cost Recoveries	914,712	971,744	1,868,635	-	-	-
Other Nonoperating Revenues (Expenses)	316	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	915,028	966,685	1,862,258	-	-	-
Income (Loss) Before Operating Transfers	119,960	(136,983)	(53,429)	-	-	-
Contributed Capital	10,947	10,947	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	345,215	465,176	339,140	285,711	285,711	285,711
Net Income (Loss)	130,907	(126,036)	(53,429)	-	-	-
Retained Earnings/Fund Balances - June 30	476,122	339,140	285,711	285,711	285,711	285,711
60 days of expenses (Total Operating Expenses divided by 6)	288,177	278,745	377,300	395,990	472,264	472,639

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	116.51	0.00	0.00	116.51	0.00	0.00	116.51	116.51
Personal Services	4,637,473	410,970	0	5,048,443	408,370	0	5,045,843	10,094,286
Operating Expenses	2,356,730	106,599	0	2,463,329	105,250	0	2,461,980	4,925,309
Equipment	103,222	0	0	103,222	0	0	103,222	206,444
Benefits & Claims	258,597	0	0	258,597	0	0	258,597	517,194
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$7,356,022	\$517,569	\$0	\$7,873,591	\$513,620	\$0	\$7,869,642	\$15,743,233
General Fund	869,937	(15,388)	0	854,549	(17,677)	0	852,260	1,706,809
State/Other Special	5,751,732	546,310	0	6,298,042	544,650	0	6,296,382	12,594,424
Federal Special	734,353	(13,353)	0	721,000	(13,353)	0	721,000	1,442,000
Total Funds	\$7,356,022	\$517,569	\$0	\$7,873,591	\$513,620	\$0	\$7,869,642	\$15,743,233

Program Description

The Employment Relations Division (ERD) provides five service areas:

- Workers' Compensation (WC) Regulation, which regulates WC insurance coverage requirements, policy compliance, medical regulations, and cost containment; and WC Claims Assistance Bureau, which assists organizations and individuals to arrive at early, less expensive settlement of their disputes
- Labor Standards Bureau, which enforces state and federal labor laws related to the payment of wages, and provides collective bargaining mediation
- Safety Bureau, which administers federal and state industrial safety laws
- Human Rights Bureau, which enforces Montana Human Rights Act and Governmental Code of Fair Practices through investigations, conciliation, hearings, and education. This bureau is responsible for enforcing laws which prohibit discrimination in employment, housing, public accommodations, financing and credit transactions, insurance, education, and government services
- Contractor Registration and Independent Contractor Exemption programs, which register contractors
- Board of Personnel Appeals, which deals with issues related to wage and hour, and collective bargaining disputes between employers and employees and is administratively attached.

Employment Relations Division	
Major Budget Highlights	
○ No major changes to mission or operations from 2003 biennium	
Major LFD Issues	
○ None	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Employment Relations Division						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 869,937	11.8%	\$ 854,549	10.9%	\$ 852,260	10.8%
02091 Independ Contractors Exemption	177,360	2.4%	289,813	3.7%	289,173	3.7%
02236 Industrial Accident Rehab	69,302	0.9%	69,302	0.9%	69,302	0.9%
02258 Employment Security Account	810,626	11.0%	843,711	10.7%	845,309	10.7%
02263 Subsequent Infury-Admin	33,275	0.5%	35,000	0.4%	35,000	0.4%
02315 Dli Info Exchange	3,256	0.0%	-	-	-	-
02346 Contractor Registration	192,396	2.6%	179,731	2.3%	179,348	2.3%
02455 Workers' Comp Regulation	3,664,106	49.8%	4,163,768	52.9%	4,160,413	52.9%
02941 Uninsured Employer Fund	801,411	10.9%	716,717	9.1%	717,837	9.1%
03122 Eeoc & Hud	119,987	1.6%	126,000	1.6%	126,000	1.6%
03128 L & I Federal Funding	-	-	-	-	-	-
03130 Coal Mine Safety	131,511	1.8%	130,000	1.7%	130,000	1.7%
03195 On-Site Consultation	481,381	6.5%	465,000	5.9%	465,000	5.9%
03954 Ui Administrative Grants	1,474	0.0%	-	-	-	-
Grand Total	\$ 7,356,022	100.0%	\$ 7,873,591	100.0%	\$ 7,869,642	100.0%

The division operations are funded from several sources:

- general fund, which supports the Silicosis and Social Security Benefits program and a portion of the Human Rights Bureau;
- state special revenue funds from several accounts including the Workers' Compensation Regulation, Employment Security, Uninsured Employer, Independent Contractor Exemption, and Contractors' Registration accounts; and
- federal funds, including Coal Mine Safety, on-site consultation, and Equal Employment Opportunity funds.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				608,300					605,593
Vacancy Savings				(209,830)					(209,723)
Inflation/Deflation				9,389					18,526
Fixed Costs				(5,912)					(16,822)
Total Statewide Present Law Adjustments				\$401,947					\$397,574
DP 2 - AUTOMATED REPORTING									
0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 10 - OPERATING COST ADJUSTMENTS									
0.00	0	59,622	6,000	65,622	0.00	0	60,046	6,000	66,046
Total Other Present Law Adjustments									
0.00	\$0	\$109,622	\$6,000	\$115,622	0.00	\$0	\$110,046	\$6,000	\$116,046
Grand Total All Present Law Adjustments				\$517,569					\$513,620

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2 - AUTOMATED REPORTING - The executive requests state special revenue authority for additional information technology consulting services to augment current processes used for electronic reporting of required information to the workers' compensation database (WCAP). Funding is from the Workers' Compensation Regulation fund.

**LFD
COMMENT**

The department states these improvements will provide improved electronic access for small employers, insurance companies and the State Compensation Insurance Fund, allowing them to report required data on injuries and proof of coverage directly to ERD without having to pay for reporting through a value added network.

**LFD
ISSUE**

These costs will be one-time-only; therefore, the legislature may wish to designate this funding as one-time-only.

DP 10 - OPERATING COST ADJUSTMENTS - The executive requests increased state and federal special revenue authority for the following:

- o Fund increases to the department's cost allocation plan - \$53,000 each year
- o Per diem expenses for members of Board of Personnel Appeals and Human Rights Commission - \$12,500 each year

**LFD
COMMENT**

The per diem request is close to the same level appropriated during the 2003 biennium. However, this specific type of personal services expenditure is not automatically carried over into the base, and must be requested in its entirety as a present law adjustment.

**LFD
COMMENT**

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Commissioner's Office/Centralized Services Division.

Proprietary Rates

Program Description

The Subsequent Injury Fund was established in 1973 to assist persons with disabilities in becoming employed, by offering a financial incentive to the employers who hire them. The incentive has a limit of 104 weeks of benefits paid by their Workers' Compensation carrier in the event of an on-the-job injury to the certified employee, thus minimizing workers' compensation expenses.

Revenues and Expenses

Beginning July 1, 1999, the fund is maintained by annual assessment of all Montana Workers' Compensation insurers, including self-insured employers, private insurers and the State Fund. The assessment is statutorily set (39-71-915 MCA) at the amount expended by the fund for the benefit payments, plus the cost of administration in the previous calendar year, less other income. The assessment is allocated among insurers based on their compensation and medical payments for the previous calendar year. The fund balance is maintained at approximately \$1,000,000 to provide an operating balance for payment of benefits and administrative costs.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06040	Subsequent Injury Fund	66020	Dept. of Labor & Industry	Employment Relations

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Subsequent Injury Fund Assessment	-	-	-	241,075	184,112	184,112
Net Fee Revenue	(641)	922	101,045	241,075	184,112	184,112
Investment Earnings	72,786	171,513	141,382	80,097	80,000	80,000
Securities Lending Income	26,036	31,318	17,879	17,800	17,800	17,800
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	(15,400)	(15,400)	(15,400)
Total Operating Revenues	98,181	203,753	260,306	323,572	266,512	266,512
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	98,181	203,753	260,306	323,572	266,512	266,512
Operating Expenses:						
Personal Services	-	-	-	-	-	-
Other Operating Expenses	257,283	499,468	217,840	290,369	233,309	233,309
Miscellaneous, operating	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	257,283	499,468	217,840	290,369	233,309	233,309
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	257,283	499,468	217,840	290,369	233,309	233,309
Operating Income (Loss)	(159,102)	(295,715)	42,466	33,203	33,203	33,203
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(159,102)	(295,715)	42,466	33,203	33,203	33,203
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	(30,754)	(33,203)	(33,203)	(33,203)	(33,203)
Retained Earnings/Fund Balances - July 1 - As Restated	(128,626)	(287,728)	(614,197)	(604,934)	(604,934)	(604,934)
Net Income (Loss)	(159,102)	(326,469)	9,263	-	-	-
Retained Earnings/Fund Balances - June 30	(287,728)	(614,197)	(604,934)	(604,934)	(604,934)	(604,934)
60 days of expenses (Total Operating Expenses divided by 6)	42,881	83,245	36,307	48,395	38,885	38,885

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	104.53	0.00	1.50	106.03	0.00	1.50	106.03	106.03
Personal Services	3,648,645	859,905	45,174	4,553,724	863,354	45,038	4,557,037	9,110,761
Operating Expenses	4,859,224	842,742	18,623	5,720,589	866,952	16,123	5,742,299	11,462,888
Equipment	232,588	30,000	0	262,588	30,000	0	262,588	525,176
Grants	115	30,000	0	30,115	30,000	0	30,115	60,230
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$8,740,572	\$1,762,647	\$63,797	\$10,567,016	\$1,790,306	\$61,161	\$10,592,039	\$21,159,055
State/Other Special	8,740,572	1,762,647	63,797	10,567,016	1,790,306	61,161	10,592,039	21,159,055
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$8,740,572	\$1,762,647	\$63,797	\$10,567,016	\$1,790,306	\$61,161	\$10,592,039	\$21,159,055

Program Description

The Business Standards Division (BSD) consists of four bureaus:

- The Building Codes Bureau (BCB) establishes and enforces minimum building, plumbing, mechanical, electrical, energy, elevator and boiler codes for use throughout Montana, including factory built buildings. It approves and certifies local government code enforcement programs to utilize codes adopted by the bureau. The BCB also assists the Board of Plumbers and State Electrical Board with license law enforcement by checking for proper licensing when inspecting projects for code compliance.
- The Weights & Measures Bureau (WMB) is responsible for licensing, inspecting, testing and certifying all weighing and measuring devices used in making commercial transactions in the Montana. WMB also enforces laws and regulations pertaining to the quantity control of prepackaged goods, the quality control of petroleum products and is responsible for maintaining the state standards of mass and volume applied when calibrating other mass and volume standards used in testing commercial devices.
- The Health Care Licensing Bureau (HCLB) provides administrative, clerical and compliance support for 19 licensing boards and one program that licenses professionals and individuals working in the health care field.
- The Business & Occupational Licensing Bureau (BOLB) provides administrative, clerical and compliance support for 14 licensing boards and four licensing programs that license professionals and individuals working in non-health-care-related professions and occupations.

Business Standards Division	
Major Budget Highlights	
○	Reorganized from Department of Commerce to Department of Labor and Industry in fiscal 2002
Major LFD Issues	
○	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Business Standards Division						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
02034 Earmarked Alcohol Funds	\$ 24,592	0.3%	\$ 44,087	0.4%	\$ 44,087	0.4%
02078 Occupational Therapists	22,414	0.3%	20,100	0.2%	19,195	0.2%
02079 Fire Protection & Permitting	13,052	0.1%	30,730	0.3%	31,167	0.3%
02109 Board Of Outfitters	479,974	5.5%	555,867	5.3%	562,557	5.3%
02155 Boiler,Blaster,Crane Licensing	133,837	1.5%	196,418	1.9%	201,630	1.9%
02160 Licensing Pvt Empl Agencies	-	-	70,000	0.7%	70,000	0.7%
02359 Chemical Dependency Counselors	25,043	0.3%	78,020	0.7%	80,475	0.8%
02446 Board Of Psychologist Exam	38,088	0.4%	55,992	0.5%	56,999	0.5%
02448 Building Codes State Spec Rev	3,139,067	35.9%	3,791,812	35.9%	3,759,522	35.5%
02673 Continuing Education Program	15,486	0.2%	15,486	0.1%	15,486	0.1%
02805 Weights & Measures Bureau	686,114	7.8%	782,965	7.4%	781,808	7.4%
02808 Board Of Landscape Architects	26,945	0.3%	24,433	0.2%	24,545	0.2%
02809 Board Of Speech Pathologists	18,940	0.2%	35,648	0.3%	35,734	0.3%
02810 Bd Of Radiologic Technologists	42,833	0.5%	56,839	0.5%	56,615	0.5%
02811 Clinical Lab Science Pract.	33,626	0.4%	50,375	0.5%	50,982	0.5%
02812 Physical Therapists	22,209	0.3%	34,344	0.3%	35,092	0.3%
02813 Bd Of Nursing Home Admin	22,311	0.3%	39,156	0.4%	40,127	0.4%
02814 Bd Of Hearing Aid Dispensers	19,195	0.2%	28,410	0.3%	29,017	0.3%
02815 Board Of Public Accountants	301,980	3.5%	287,413	2.7%	290,200	2.7%
02816 Board Of Sanitariums	10,508	0.1%	8,297	0.1%	8,428	0.1%
02818 Electrical Board	117,457	1.3%	189,233	1.8%	193,997	1.8%
02819 Real Estate	507,167	5.8%	604,945	5.7%	607,759	5.7%
02820 Board Of Architects	56,402	0.6%	45,829	0.4%	46,510	0.4%
02821 Board Of Funeral Service	57,272	0.7%	52,938	0.5%	53,687	0.5%
02822 Board Of Chiropractors	46,305	0.5%	57,355	0.5%	58,452	0.6%
02823 Professional Engineers	259,855	3.0%	258,005	2.4%	258,948	2.4%
02824 Board Of Medical Examiners	606,467	6.9%	651,300	6.2%	656,888	6.2%
02826 Cosmetology Board	284,541	3.3%	383,040	3.6%	387,512	3.7%
02828 Board Of Plumbers	130,040	1.5%	185,468	1.8%	188,240	1.8%
02829 Private Investigator	87,109	1.0%	95,885	0.9%	97,167	0.9%
02830 Board Of Dentistry	156,137	1.8%	193,073	1.8%	196,022	1.9%
02831 Board Of Optometrists	27,978	0.3%	40,287	0.4%	41,140	0.4%
02832 Board Of Pharmacy	202,906	2.3%	344,036	3.3%	345,647	3.3%
02833 Board Of Nursing	740,560	8.5%	754,771	7.1%	756,655	7.1%
02834 Board Of Veterinarians	44,750	0.5%	56,970	0.5%	57,856	0.5%
02835 Board Of Barbers	44,496	0.5%	52,041	0.5%	53,044	0.5%
02840 Board Of Social Workers	84,538	1.0%	119,251	1.1%	121,021	1.1%
02841 Board Of Athletics	26,718	0.3%	45,854	0.4%	46,410	0.4%
02852 Bd. Of Alternative Health Care	23,109	0.3%	34,559	0.3%	35,192	0.3%
02854 Bd. Of Real Estate Appraisers	149,131	1.7%	168,637	1.6%	170,663	1.6%
02855 Bd Of Respiratory Care	11,420	0.1%	27,147	0.3%	25,563	0.2%
06552 Pol Admin Services	-	-	-	-	-	-
Grand Total	<u>\$ 8,740,572</u>	<u>100.0%</u>	<u>\$ 10,567,016</u>	<u>100.0%</u>	<u>\$ 10,592,039</u>	<u>100.0%</u>

The division is funded entirely from state special revenue and proprietary funds.

- o the Building Codes Bureau is funded from inspection fees deposited into the Building Codes state special revenue fund;
- o the Weights and Measures Bureau is funded from license and inspection fees deposited into the Weights and Measures state special revenue fund;

- the Health Care Licensing Bureau is funded with state special revenue from the licensing boards and programs it oversees;
- the Business and Occupational Licensing Bureau is funded with state special revenue from the licensing boards and programs it oversees; and
- division administrative functions are centrally-funded from a proprietary fund with indirect charges paid by all bureaus within the division. These proprietary funds are based on legislatively-approved rates, and are not appropriated in HB 2; therefore, they are not shown in the table. For further discussion of the proprietary funds, see the Proprietary Rates section at the end of this narrative.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				909,003						910,714
Vacancy Savings				(182,318)						(182,380)
Inflation/Deflation				24,184						29,239
Fixed Costs				34,798						29,578
Total Statewide Present Law Adjustments				\$785,667						\$787,151
DP 3 - Restore OTO - BOLB & BCB Vehicle Request	0.00	0	27,281	0	27,281	0.00	0	28,131	0	28,131
DP 6 - Legal Contingency Fund	0.00	0	70,000	0	70,000	0.00	0	70,000	0	70,000
DP 7 - Real Estate Regulation Grants Increase	0.00	0	30,000	0	30,000	0.00	0	30,000	0	30,000
DP 8 - BCB & W&M Operating Increase	0.00	0	144,200	0	144,200	0.00	0	108,927	0	108,927
DP 9 - Oracle System Support	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 13 - Board Operating Increase	0.00	0	655,499	0	655,499	0.00	0	716,097	0	716,097
Total Other Present Law Adjustments										
	0.00	\$0	\$976,980	\$0	\$976,980	0.00	\$0	\$1,003,155	\$0	\$1,003,155
Grand Total All Present Law Adjustments				\$1,762,647						\$1,790,306

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3 - Restore OTO - BOLB & BCB Vehicle Request - The executive requests an increase in state special revenue of approx \$28,000 each year of the biennium for the following:

- a decrease in personal car mileage as a result of increase use of leased vehicles vs. employees' personal vehicles within the State Electrical Board, Board of Cosmetologists, Board of Barbers, and the Board of Outfitters - \$5,400 reduction each year; and
- additional equipment funding to purchase two new vehicles within the Building Codes Bureau. This request is restoring a portion of vehicle replacement funding that the legislature designated as OTO during the 2001 session - \$30,000 each year.

**LFD
COMMENT**

The 2001 legislature provided the Building Codes Bureau approximately \$46,000 in each year of the 2003 biennium for the purpose of purchasing replacement vehicles. The legislature designated this funding as one-time-only, and added language to HB 2 requiring the department to "report to the 2003 legislature on options for a fleet management plan to stabilize vehicle replacement costs within the Building Codes Division." The Building Codes Bureau has defined its formal vehicle replacement plan to contain the following elements:

- Approximately 25 percent of vehicles (11 of 41) require replacing each year
- Vehicles are targeted for replacement at 100,000 miles
- Annual vehicle replacement projections are based on average miles driven by each inspector
- Six of the lowest-mileage vehicles targeted for replacement are kept for use by office staff for out-of-town travel and as temporary replacement vehicles.

DP 6 - Legal Contingency Fund - The executive requests \$70,000 each year in state special revenue authority to reestablish the legal proceeding contingency fund, which was funded as one-time-only during the 2001 session. The legal proceeding contingency fund supports all boards and programs within the division in most legal matters. This request is at the same level as requested and appropriated during the 2001 session.

**LFD
ISSUE**

If the legislature wishes to appropriated funding to be used solely for the legal proceeding contingency fund, the appropriation can be designated as restricted.

DP 7 - Real Estate Regulation Grants Increase - The executive requests additional state special revenue authority from the Real Estate Recovery Account to offer education grants to private education providers offering continuing education in rural areas and in specialty topic areas, where revenue will not meet expenses. The grants are not intended to provide 100% funding for an educational course. This request is for \$30,000 each year of the biennium.

DP 8 - BCB & W&M Operating Increase - The executive requests increased state and federal special revenue authority for the following, funded from Building Codes and Weights and Measures state special revenue:

- Building Codes inspector travel increase due to vacancies in the base year - \$32,000 each year
- Rent adjustments - (\$30) in fiscal 2004, \$1,527 in fiscal 2005
- Increased indirect costs to support BSD administration - approximately \$115,000 each year

**LFD
COMMENT**

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the Proprietary Rates narrative for this program.

DP 9 - Oracle System Support - The executive requests additional state special revenue authority for all business and occupational licensing boards for consulting services (\$50,000 each year). The increase will fund various modifications to the Oracle database as a result of changes in requirements, and will service 33 boards and 5 programs with over 200 registration/license types.

DP 13 - Board Operating Increase - The executive requests increased state and federal special revenue authority for the following:

- Increased recharges for support bureau and division functions - \$283,254 in fiscal 2004, \$351,352 in fiscal 2005
- Per diem for board members - approximately \$128,000 each year
- Rent increases - approximately \$15,000 each year
- Various contracted services for the Board of Athletics, State Electrical Board, Board of Realty Regulation, and Board of Plumbers - approximately \$100,000 each year
- Miscellaneous operating costs adjustments

LFD COMMENT

The per diem request is approximately \$25,000 per year over base year expenditures. However, this specific type of personal services expenditure is not automatically carried over into the base, and must be requested in its entirety as a present law adjustment.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 5 - Board FTE Request										
05	1.50	0	63,797	0	63,797	1.50	0	61,161	0	61,161
Total	1.50	\$0	\$63,797	\$0	\$63,797	1.50	\$0	\$61,161	\$0	\$61,161

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 5 - Board FTE Request - The executive requests state special revenue authority for 1.5 FTE. 1.0 FTE is requested for the Board of Pharmacy to accommodate increased workload due to the addition of mandatory registration of pharmacy technicians, as passed by the 2001 legislature. 0.5 FTE is requested for the Board of Plumbers to accommodate increased continuing education workload due to an increased number of plumbers. Funding is from the Board of Pharmacy and Board of Plumbers state special revenue funds.

Proprietary Rates

Program Description

The intent of the BSD Administration internal service fund is to cover division and bureau level costs of operation that are common to the bureaus, boards and programs of the division. Common costs of operation are assessed through recharges to the various state special revenue accounts maintained within the division.

The fund provides support to the Building Codes, Weights and Measures, Business and Occupational Licensing, and Health Care Licensing bureaus. The programs within the Health Care Licensing and Business and Occupational Licensing bureaus include:

Health Care Licensing
 Licensed Addiction Counselors
 Bd. of Chiropractors
 Bd. of Dentistry
 Bd. of Hearing Aid Dispenser
 Bd. of Respiratory Care Practitioners
 Bd. of Alternative Health Care
 Bd. of Medical Examiners
 Bd. of Funeral Services

Business and Occupational Licensing
 Bd. of Architects
 Bd. of Athletics
 Bd. of Cosmetologists
 State Electrical Bd.
 Bd. of Outfitters
 Bd. of Professional Eng. & Land Surv.
 Bd. of Public Accountants
 Bd. of Realty Regulation

Bd. of Nursing
Bd. of Nursing Home Admin.
Bd. of Optometry
Bd. of Pharmacy
Bd. of Veterinary Medicine
Bd. of Psychologists
Bd. of Speech Pathologists & Audiologists
Bd. of Radiologic Technologists
Bd. of Social Workers & Prof. Counselors
Bd. of Physical Therapy Examiners
Bd. of Occupational Therapists
Bd. of clinical Lab. Science Practitioners

Bd. of Real Estate Appraisers
Bd. of Sanitarians
Bd. of Private Security Patrol Officers
Bd. of Landscape Architects
Bd. of Plumbers
Fire Prevention Installers Licensing
Boiler, Blaster, Crane Licensing
Board of Barbers

Revenues and Expenses

The revenue objective of the BSD Administration fund is to assess the common costs of operations to the state special revenue accounts on an equitable basis, while attempting to maintain a reasonable working capital reserve.

Rate Explanation

Recharge rates are allocated to the state special revenue accounts based upon projected expenditures. Each program is assigned a percentage rate based on assigned FTE. That percentage is then applied to determine each program's share of the necessary revenues.

Significant Present Law

DP 17 - BSD Administration - The department has created the Business Standards Division (BSD) with four bureaus to manage the reorganization adopted last session in SB 445. This request finalized establishment of the BSD internal service fund, including an adjustment for the alternative pay plan.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06552	Admin Services	66020	Dept. of Labor & Industry	Business Standards Division

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Cost Allocation Plan	-	-	-	2,081,768	1,840,707	1,833,458
Net Fee Revenue	2,961,587	2,989,833	2,807,530	2,081,768	1,840,707	1,833,458
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	5,881	140	-	-	-	-
Total Operating Revenues	2,967,468	2,989,973	2,807,530	2,081,768	1,840,707	1,833,458
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	2,967,468	2,989,973	2,807,530	2,081,768	1,840,707	1,833,458
Operating Expenses:						
Personal Services	2,317,728	2,319,982	2,092,370	1,513,984	1,301,718	1,303,187
Other Operating Expenses	451,187	603,621	662,086	-	-	-
Miscellaneous, operating	166,061	181,287	187,568	567,784	538,989	530,271
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	2,934,976	3,104,890	2,942,024	2,081,768	1,840,707	1,833,458
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	2,934,976	3,104,890	2,942,024	2,081,768	1,840,707	1,833,458
Operating Income (Loss)	32,492	(114,917)	(134,494)	-	-	-
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(9,385)	(3,005)	-	-	-
Federal Indirect Cost Recoveries	103,926	110,360	236,799	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	103,926	100,975	233,794	-	-	-
Income (Loss) Before Operating Transfers	136,418	(13,942)	99,300	-	-	-
Contributed Capital	47,208	47,208	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	93,885	229,525	215,583	314,883	314,883	314,883
Net Income (Loss)	183,626	33,265	99,300	-	-	-
Retained Earnings/Fund Balances - June 30	277,511	262,791	314,883	314,883	314,883	314,883
60 days of expenses (Total Operating Expenses divided by 6)	489,163	517,482	490,337	346,961	306,785	305,576

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	4.00	0.00	0.00	4.00	0.00	0.00	4.00	4.00
Personal Services	113,621	42,242	0	155,863	41,790	0	155,411	311,274
Operating Expenses	106,530	6,944	0	113,474	6,974	0	113,504	226,978
Grants	1,838,744	1,000,000	0	2,838,744	1,000,000	0	2,838,744	5,677,488
Total Costs	\$2,058,895	\$1,049,186	\$0	\$3,108,081	\$1,048,764	\$0	\$3,107,659	\$6,215,740
General Fund	24,693	0	0	24,693	0	0	24,693	49,386
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	2,034,202	1,049,186	0	3,083,388	1,048,764	0	3,082,966	6,166,354
Total Funds	\$2,058,895	\$1,049,186	\$0	\$3,108,081	\$1,048,764	\$0	\$3,107,659	\$6,215,740

Program Description

The Office of Community Services (OCS) provides administration of federal Corporation for National Service programs (AmeriCorps and Campus Corps), community service, and volunteer efforts statewide, including the Volunteer Montana program.

Office of Community Service Major Budget Highlights	
○ No major changes to mission or operations from 2003 biennium	
Major LFD Issues	
○ None	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Office Of Community Service						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 24,693	1.2%	\$ 24,693	0.8%	\$ 24,693	0.8%
02303 Montana Summit/Promise	-	-	-	-	-	-
03322 Mt Community Service Fsr	2,034,202	98.8%	3,083,388	99.2%	3,082,966	99.2%
Grand Total	\$ 2,058,895	100.0%	\$ 3,108,081	100.0%	\$ 3,107,659	100.0%

Federal funds provide over 99 percent of the funding for the OCS program with the remainder provided by general fund, which is used to provide a portion of the state match for the program administration grant. The remainder of the state match is provided through donations and in-kind donations.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				48,736					48,265	
Vacancy Savings				(6,494)					(6,475)	
Inflation/Deflation				(211)					(137)	
Fixed Costs				3,510					3,481	
Total Statewide Present Law Adjustments				\$45,541					\$45,134	
DP 702 - Grant Funding Increase										
0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000	
DP 703 - Misc. Expenses Increase										
0.00	0	0	3,645	3,645	0.00	0	0	3,630	3,630	
Total Other Present Law Adjustments										
0.00	\$0	\$0	\$1,003,645	\$1,003,645	0.00	\$0	\$0	\$1,003,630	\$1,003,630	
Grand Total All Present Law Adjustments				\$1,049,186					\$1,048,764	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 702 - Grant Funding Increase - The executive requests an additional \$1 million in federal special revenue authority each year to accommodate an anticipated increase in federal AmeriCorps program grants. The three new planning grants are projected to be used to develop full-fledged AmeriCorps grant-funded programs with Statewide Headstart, Yellowstone Council on Aging, and Community Connections for Youth through MSU-Billings.

DP 703 - Misc. Expenses Increase - The executive requests additional federal special revenue authority to accommodate an increase in the agency's indirect cost allocation plan.

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Commissioner's Office/Centralized Services Division.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	5.00	0.00	0.00	5.00	0.00	0.00	5.00	5.00
Personal Services	298,285	3,902	0	302,187	2,979	0	301,264	603,451
Operating Expenses	121,963	22,595	0	144,558	22,554	0	144,517	289,075
Total Costs	\$420,248	\$26,497	\$0	\$446,745	\$25,533	\$0	\$445,781	\$892,526
State/Other Special	420,248	26,497	0	446,745	25,533	0	445,781	892,526
Total Funds	\$420,248	\$26,497	\$0	\$446,745	\$25,533	\$0	\$445,781	\$892,526

Program Description

The Workers' Compensation Court provides a forum for Montana employees and the insurance industry to resolve disputes arising from work-related injuries and occupational disease. The court is attached to the department for administrative purposes.

Workers' Compensation Court Major Budget Highlights	
○	No major changes to mission or operations from 2003 biennium
Major LFD Issues	
○	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Workers Compensation Court						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02455 Workers' Comp Regulation	\$ 420,248	100.0%	\$ 446,745	100.0%	\$ 445,781	100.0%
Grand Total	\$ 420,248	100.0%	\$ 446,745	100.0%	\$ 445,781	100.0%

This program is funded entirely with state special revenues (Workers' Compensation Regulation) from assessments on employers, insurers, and the state fund.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				16,492						15,533
Vacancy Savings				(12,590)						(12,554)
Inflation/Deflation				652						674
Fixed Costs				(182)						(828)
Total Statewide Present Law Adjustments				\$4,372						\$2,825
DP 14 - Operating Expenses Increase										
0.00	0	22,125	0	22,125	0.00	0	22,708	0		22,708
Total Other Present Law Adjustments										
0.00	\$0	\$22,125	\$0	\$22,125	0.00	\$0	\$22,708	\$0		\$22,708
Grand Total All Present Law Adjustments				\$26,497						\$25,533

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 14 - Operating Expenses Increase - The executive requests additional state special revenue authority for the following:

- increased rent - approximately \$3,000 for the biennium;
- increased costs for anticipated usage of court reporters for the projected maximum number of cases - \$10,000 each year; and
- increased travel costs for anticipated staff travel based on projected maximum number of cases. This figure also includes travel costs for the Workers' Compensation Judge and staff attorney to attend judicial training.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	114.00	1.50	50.40	165.90	1.50	50.40	165.90	165.90
Personal Services	4,529,507	627,264	1,682,031	6,838,802	627,291	1,678,341	6,835,139	13,673,941
Operating Expenses	4,867,500	808,811	1,760,457	7,436,768	776,150	1,854,155	7,497,805	14,934,573
Equipment	22,542	18,000	15,000	55,542	15,000	15,000	52,542	108,084
Capital Outlay	0	0	0	0	0	0	0	0
Grants	685,992	0	2,777,000	3,462,992	0	2,777,000	3,462,992	6,925,984
Benefits & Claims	2,280	0	0	2,280	0	0	2,280	4,560
Total Cnsts	\$10,107,821	\$1,454,075	\$6,234,488	\$17,796,384	\$1,418,441	\$6,324,496	\$17,850,758	\$35,647,142
General Fund	2,974,227	250,798	(61,068)	3,163,957	227,709	(61,338)	3,140,598	6,304,555
State/Other Special	151,344	106,208	1,370,522	1,628,074	95,376	1,460,300	1,707,020	3,335,094
Federal Special	6,982,250	1,097,069	4,925,034	13,004,353	1,095,356	4,925,534	13,003,140	26,007,493
Total Funds	\$10,107,821	\$1,454,075	\$6,234,488	\$17,796,384	\$1,418,441	\$6,324,496	\$17,850,758	\$35,647,142

Agency Description

The Department of Military Affairs, administered by the Adjutant General, oversees activities of the Air and Army National Guard, Disaster and Emergency Services, and the National Guard (NG) Youth Challenge program. The Montana Board of Veterans' Affairs is administratively attached to the department. The department, through the Army and Air National Guard, manages a joint federal-state program to maintain trained and equipped military organizations in readiness for state and national mobilizations to active duty.

The Disaster and Emergency Services Division plans for and coordinates state responses in disaster and emergency situations. The Board of Veterans' Affairs manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families, and is responsible for the two state veterans' cemeteries. The NG Youth Challenge program provides a military-modeled youth intervention program with a goal of improving the life coping skills and employability of high school dropouts.

Agency Discussion
The Department of Military Affairs is funded predominantly with general fund and federal special revenue. The 2005 biennium executive budget request continues current operations of the department.

Department of Military Affairs Major Budget Highlights
○ Funding for the Youth Challenge program is continued. This program was funded as one-time-only by the 2001 Legislature, and is not included in the base ○ The executive proposes to replace general fund in the Youth Challenge program with Employment Security Account state special revenue funding ○ Funding for the National Guard Youth Scholarship program is not continued ○ The executive requests increased authority for increased grant funding within the Disaster and Emergency Services Division ○ The executive requests increased authority within the Army and Air National Guard programs for increased operating costs ○ 2.0 FTE are eliminated in Disaster and Emergency Services Division and Veterans' Affairs Division
Major LFD Issues
○ Discussion of issues and options concerning the Youth Challenge program ○ Air National Guard program general fund increases by 63 percent over base, related to assuming costs of federally funded construction

Funding
The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
Centralized Services	\$ 875,042	\$ -	\$ 194,867	\$ 1,069,909	3.0%
Challenge Program	-	2,250,880	3,359,561	5,610,441	15.7%
Scholarship Program	-	-	-	-	-
Army National Guard Pgm	2,392,717	682,000	9,305,942	12,380,659	34.7%
Air National Guard Pgm	617,190	-	4,522,158	5,139,348	14.4%
Disaster & Emergency Services	999,581	27,400	8,624,965	9,651,946	27.1%
Veterans Affairs Program	1,420,025	374,814	-	1,794,839	5.0%
Grand Total	\$ 6,304,555	\$ 3,335,094	\$ 26,007,493	\$ 35,647,142	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	115.50	50.40	165.90	115.50	50.40	165.90	114.00	165.90
Personal Services	5,156,771	1,682,031	6,838,802	5,156,798	1,678,341	6,835,139	9,340,909	13,673,941
Operating Expenses	5,676,311	1,760,457	7,436,768	5,643,650	1,854,155	7,497,805	10,165,202	14,934,573
Equipment	40,542	15,000	55,542	37,542	15,000	52,542	60,509	108,084
Capital Outlay	0	0	0	0	0	0	0	0
Grants	685,992	2,777,000	3,462,992	685,992	2,777,000	3,462,992	1,375,010	6,925,984
Benefits & Claims	2,280	0	2,280	2,280	0	2,280	4,560	4,560
Total Costs	\$11,561,896	\$6,234,488	\$17,796,384	\$11,526,262	\$6,324,496	\$17,850,758	\$20,946,190	\$35,647,142
General Fund	3,225,025	(61,068)	3,163,957	3,201,936	(61,338)	3,140,598	6,042,205	6,304,555
State/Other Special	257,552	1,370,522	1,628,074	246,720	1,460,300	1,707,020	560,873	3,335,094
Federal Special	8,079,319	4,925,034	13,004,353	8,077,606	4,925,534	13,003,140	14,343,112	26,007,493
Total Funds	\$11,561,896	\$6,234,488	\$17,796,384	\$11,526,262	\$6,324,496	\$17,850,758	\$20,946,190	\$35,647,142

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 1 - Restore OTO - Montana NG Youth Challenge Program										
02	47.40	0	1,100,522	1,650,784	2,751,306	47.40	0	1,100,300	1,650,451	2,750,751
DP 8 - Environmental Program Operations										
12	2.00	0	0	332,520	332,520	2.00	0	0	333,353	333,353
DP 14 - MTNG Distance Learning										
12	0.00	0	270,000	0	270,000	0.00	0	360,000	0	360,000
DP 210 - Terrorism Preparedness and Equipment										
21	3.00	0	0	2,967,000	2,967,000	3.00	0	0	2,967,000	2,967,000
DP 7001 - Reduce Current Level FTE - Veterans Affairs Div.										
31	(1.00)	(36,068)	0	0	(36,068)	(1.00)	(36,068)	0	0	(36,068)
DP 7002 - Reduce Current Level FTE - DES										
21	(1.00)	(25,000)	0	(25,270)	(50,270)	(1.00)	(25,270)	0	(25,270)	(50,540)
Total	50.40	(\$61,068)	\$1,370,522	\$4,925,034	\$6,234,488	50.40	(\$61,338)	\$1,460,300	\$4,925,534	\$6,324,496

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	8.20	1.00	0.00	9.20	1.00	0.00	9.20	9.20
Personal Services	395,039	101,433	0	496,472	100,053	0	495,092	991,564
Operating Expenses	53,875	(16,689)	0	37,186	(17,276)	0	36,599	73,785
Benefits & Claims	2,280	0	0	2,280	0	0	2,280	4,560
Total Costs	\$451,194	\$84,744	\$0	\$535,938	\$82,777	\$0	\$533,971	\$1,069,909
General Fund	394,510	43,895	0	438,405	42,127	0	436,637	875,042
Federal Special	56,684	40,849	0	97,533	40,650	0	97,334	194,867
Total Funds	\$451,194	\$84,744	\$0	\$535,938	\$82,777	\$0	\$533,971	\$1,069,909

Program Description

The Centralized Services Division provides departmental administration through the Office of the Adjutant General and department-wide support for accounting, fiscal management, personnel, labor relations, purchasing, and property management oversight.

Centralized Services Division	
Major Budget Highlights	
o	The executive reduces general fund by approximately \$20,000 each year to continue the Governor's fiscal 2003 expenditure reductions and August 2002 Special Session reductions
Major LFD Issues	
o	None

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Centralized Services						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 394,510	87.4%	\$ 438,405	81.8%	\$ 436,637	81.8%
03132 National Guard	43,321	9.6%	83,620	15.6%	83,421	15.6%
03134 Disaster & Emergency Services	13,363	3.0%	13,913	2.6%	13,913	2.6%
Grand Total	<u>\$ 451,194</u>	<u>100.0%</u>	<u>\$ 535,938</u>	<u>100.0%</u>	<u>\$ 533,971</u>	<u>100.0%</u>

The division is primarily funded with general fund. The federal/state agreements between the Department of Military Affairs and the associated federal agencies have identified costs of positions that provide support to federally funded activities as applicable for federal funding. During the base year, federal funds accounted for approximately 13 percent of the funding for the Centralized Services Division. For the 2005 biennium, federal funds account for 18 percent of the division funding.

Present Law Adjustments	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					85,591					84,249
Vacancy Savings					(19,225)					(19,172)
Inflation/Deflation					718					746
Fixed Costs					(2,446)					(3,060)
Total Statewide Present Law Adjustments					\$64,638					\$62,763
DP 3 – Restore OTO – State Cooperative Agreements Manager	1.00	0	0	39,639	39,639	1.00	0	0	39,548	39,548
DP 7003 – Reduce current level in Centralized Services	0.00	(19,533)	0	0	(19,533)	0.00	(19,534)	0	0	(19,534)
Total Other Present Law Adjustments	1.00	(\$19,533)	\$0	\$39,639	\$20,106	1.00	(\$19,534)	\$0	\$39,548	\$20,014
Grand Total All Present Law Adjustments					\$84,744					\$82,777

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3 - Restore OTO - State Cooperative Agreements Manager - The executive requests approximately \$40,000 annually in federal authority to continue funding for a 1.0 FTE Compliance Specialist position on a permanent basis. This position was approved by the 2001 legislature as one-time-only. This position would be responsible for the various department cooperative agreements with the Federal National Guard Bureau, currently at 12 cooperative agreements totaling over \$126 million, with duties including:

- o Reviewing and tracking all expenditures made, and
- o Ensuring that all appropriate reimbursements for state expenditures are requested from the federal government.

DP 7003 - Reduce current level in Centralized Services - The executive proposes to reduce the current level of general fund within Centralized Services by approximately \$20,000 to meet the department's mandated general fund reduction, based on a continuation of the Governor's fiscal 2003 expenditure reductions and reductions made during the 2003 special session. This proposal represents the division share based on department reallocation of the overall reduction.

LFD COMMENT

This reduction has been applied to general categories of expenditures, making impacts upon the division difficult to identify. However, the department has stated it will reallocate funding as needed, but will most likely reduce expenditures in travel, training, and equipment purchase/maintenance.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	47.40	47.40	0.00	47.40	47.40	47.40
Personal Services	0	0	1,540,469	1,540,469	0	1,536,229	1,536,229	3,076,698
Operating Expenses	0	59,557	1,210,837	1,270,394	48,827	1,214,522	1,263,349	2,533,743
Total Costs	\$0	\$59,557	\$2,751,306	\$2,810,863	\$48,827	\$2,750,751	\$2,799,578	\$5,610,441
General Fund	0	0	0	0	0	0	0	0
State/Other Special	0	30,527	1,100,522	1,131,049	19,531	1,100,300	1,119,831	2,250,880
Federal Special	0	29,030	1,650,784	1,679,814	29,296	1,650,451	1,679,747	3,359,561
Total Funds	\$0	\$59,557	\$2,751,306	\$2,810,863	\$48,827	\$2,750,751	\$2,799,578	\$5,610,441

Program Description

The Montana National Guard Youth Challenge Program is a volunteer program for youth ages 16 to 18 who have stopped attending secondary school before graduating. Challenge is a 17-month, voluntary, two-phased military modeled training program targeting unemployed drug-free and non-offender high school dropouts. The program provides an opportunity for 'at-risk' youth to enhance their life skills, and increase their educational levels and employment potential. Core components of the program are citizenship, academic excellence (GED/high school diploma attainment), life-coping skills, community service, health and hygiene, skills training, leadership, cooperative group skills, and physical training. Phase I of the program is a 22-week residential stay on the campus of Western Montana College of the University of Montana, in Dillon, focusing on physical training, classroom instruction, personal development, and life skills. Phase II is a year-long mentoring relationship with a specially-trained member of the community, where the youth resides, to provide a positive role model and to assist the student in gaining employment or enrolling in post-secondary schooling.

Youth Challenge Program Major Budget Highlights	
○ The executive continues funding for the Youth Challenge program. This program was funded as one-time-only by the 2001 legislature. Therefore, the program is not included in the base ○ The executive proposes to fund the state match portion of program funding from the Employment Security Account	
Major LFD Issues	
○ Youth in program potentially qualify for services through federal Workforce Investment Act (WIA) funding ○ Both programs show propensity for successful transition for 'at-risk' youth ○ Ability of WIA program to absorb youth currently service by the Youth Challenge program is undetermined ○ Using similar standards for cost comparison, Youth Challenge program has a higher cost than the WIA program ○ Funding is provided from ESA account. All issues relating to use of the ESA apply to this program. For more information, see the narrative for the Workforce Services Division within the Department of Labor and Industry	

Background

The National Guard Bureau funds the state programs at a level equating to \$14,000 per student, but will not provide funding for a program with a target enrollment less than 100. Each state is to determine the number of participants it will target for enrollment and graduation from the program based on available facilities and individual state need. Montana's target is 100 students per class, or 200 per year. Therefore, Montana's program is funded at a level of \$2.8 million per year, with the state match (40 percent) equal to \$1.12 million. The National Guard Bureau allows state programs to obtain grants and donations to support the program, but will not count any of those funding sources toward the state match. Of the 28 states currently operating the Youth Challenge program, Montana has the lowest base population, and therefore, number of dropouts. This provides for a smaller pool of applicants for the program, which in turn may facilitate a lower completion rate for the program. Overall, the number of applicants for each class has varied, but remained between 147 and 182.

Comparison to Other Programs

There are other programs available to at-risk youth. Consequently, the issue for the legislature to consider is whether youth currently served by the Youth Challenge program could be served by other programs at a lower cost. Two programs available to 'at-risk' youth are the Jobs for Montana's Graduates (JMG) program and the Workforce Investment Act (WIA) Title IB youth program. The Youth Challenge program targets dropouts while the JMG program targets 'at-risk' youth who are still in school (for more information, please see the Program Issues narrative for the Workforce Services Division within the Department of Labor and Industry). Therefore, the most useful comparison may be made between the WIA youth program and the Youth Challenge Program.

WIA Title IB youth program

The WIA youth program serves low-income youth ages 14 through 21, although up to 5 percent of clients may be exempted from the income requirement, if they face certain barriers to school completion or employment. Eligible youth must also face one or more of the following challenges to successful workforce entry:

- o School dropout (at least 30 percent of program funding must help those who are not in school)
- o Basic literary skills deficiency
- o Homeless, runaway, or foster child
- o Pregnant or a parent
- o An offender
- o Needing help completing an educational program or securing and holding a job

The program provides a wide range of services. An overview provided by the US Department of Labor states that:

- o Youth will be prepared for postsecondary educational opportunities or employment
- o Programs will link academic and occupational learning, and
- o Service providers will have strong ties to employers.

Additionally programs are also required to provide:

- o tutoring;
- o study skills training and instruction leading to completion of secondary school (including dropout prevention);
- o alternative school services;
- o mentoring by appropriate adults;
- o paid and unpaid work experience (such as internships and job shadowing);
- o occupational skills training;
- o leadership development;
- o appropriate supportive services; and
- o guidance and counseling, and follow-up services for at least one year, as appropriate.

In program year 2000, the WIA youth program served 588 youth at an average cost of about \$4,900 per client.

Issues

1. There are five main issues when discussing the Youth Challenge program.
- It appears most Youth Challenge participants would also qualify for services under the WIA youth program, with the exception being those who did not meet income requirements.
 - Both programs show success at helping qualifying participants. Figure 1 provides a comparison of the goals and results for each program. However, these results need to be analyzed within the following context: The WIA program serves all who qualify, while the Youth Challenge program selects participants from a field of applicants, then further refines the number of participants during the two-week pre-residential phase. Additionally, while both programs are voluntary, the structure and intensity provided by each program is very different. The military-training atmosphere provided by the Youth Challenge program, while eliminating some participants, may also lead to a higher completion rate for that program.

Figure 1				
Montana Youth Challenge				
Achievement of Program Goals (Residential Phase)				
	Goal	Results		
		2000	2001	2002
Graduation Rate (Annually)	180	133	163	159
GED Success Rate (1)	68%	68%	88%	91%
Grade-level Equivalency Growth (Math)	1	1.2	1.7	1.7
Grade-level Equivalency Growth (Reading)	1	1.3	1.7	1.6
Community Service (Hours per student)	40	52	58	52
Mentor Matches	100%	96%	91%	95%

(1) - Program goal based on 2000 national program average.

- The ability of the WIA youth program to serve the additional number of youth currently in the Youth Challenge program is difficult to determine, and will vary depending on:
 - Number of Challenge-eligible youth who qualify for and request WIA assistance;
 - level of services required by individual clients; and
 - funding available within any 6-month funding window.
- Using the placement and retention rates for each program as the measure of success, the WIA youth program has a cost of approximately \$8,300 federal funds per successful client, while the Youth Challenge program has a cost of approximately \$20,000 per successful client, (\$12,000 federal funds/ \$8,000 general fund).
- For the 2005 biennium, the executive proposes replacing the general fund, historically allocated to the program, with funding from the Employment Security Account (ESA). This funding switch is dependent upon the amount of federal Reed Act funding available to backfill ESA funding, and at least partially based on the Youth Challenge program attempts to better equip individuals to enter the workforce or improve the overall quality of the workforce. However, as with general fund, the decision to use ESA funding for the Youth Challenge program should be preceded by a discussion on the overall usage of the ESA, and how this program and others fall within state priorities for providing workforce development services. Additionally, given the projected status of the ESA, replacing general fund with ESA funding is most-likely a short-term proposal contingent on backfilling the ESA with other funding. *For more information on the use of ESA, as well as the proposed Reed Act/ESA funding switch and ESA status, please refer to the corresponding discussions in the narrative for the Workforce Services Division within the Department of Labor and Industry.*

Options:

- do not fund the Youth Challenge program
- accept the executive proposal to fund the Youth Challenge program state match with funds from the ESA
- accept the executive-proposed level of funding, but fund the state match with general fund

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Challenge Program					
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ -	\$ -	-	\$ -	-
02258 Employment Security Account	-	1,131,049	40.2%	1,119,831	40.0%
03132 National Guard	-	1,679,814	59.8%	1,679,747	60.0%
Grand Total	-	\$ 2,810,863	100.0%	\$ 2,799,578	100.0%

The Youth Challenge Program has been funded since fiscal 2000 with a combination of federal funds and a general fund state match. Initially funded at a 70/30 federal to state match, state funding was to increase by 5 percent each year until fiscal 2002, at which time the funding split was to permanently remain 60/40 federal to state. During the 2003 special session all general fund within the program for fiscal 2003 was replaced with Employment Security Account (ESA) funding administered by the Department of Labor and Industry. The executive funds the Youth Challenge program state match with ESA funding for the 2005 biennium.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					0					0
Vacancy Savings					0					0
Inflation/Deflation					0					0
Fixed Costs					59,557					48,827
Total Statewide Present Law Adjustments					\$59,557					\$48,827
Grand Total All Present Law Adjustments					\$59,557					\$48,827

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 1 - Restore OTO - Montana NG Youth Challenge Program										
02	47.40	0	1,100,522	1,650,784	2,751,306	47.40	0	1,100,300	1,650,451	2,750,751
Total	47.40	\$0	\$1,100,522	\$1,650,784	\$2,751,306	47.40	\$0	\$1,100,300	\$1,650,451	\$2,750,751

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1 - Restore OTO - Montana NG Youth Challenge Program - The executive proposes to continue the program at the currently established level of two classes per year, with a target participation/completion rate of 100 youth in each class. The executive funds the state match portion of the funding (40 percent of total funding) entirely with ESA funds. No general fund is requested for the program.

**LFD
ISSUE**

The federal National Guard Bureau funds each Youth Challenge program at a program cost of \$14,000 per student, with a minimum enrollment of 100 youth per class. Montana has established its program at that minimum. Therefore, program funding is capped for 200 (two classes per year) youth, at an annual cost of \$2.8 million per year. Using the 60/40 federal/state split percentage provides a funding level of \$1.68 million federal funds and \$1.12 million state match funds. The executive level of state match funding in fiscal 2004 is approximately \$10,000 beyond that which will be matched by federal funds. Therefore, if the legislature wishes to fund the program only at the established 60/40 federal/state split, the state match appropriation should be reduced to \$1.12 million in fiscal 2004.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	32.30	0.00	2.00	34.30	0.00	2.00	34.30	34.30
Personal Services	1,161,198	356,263	82,520	1,599,981	354,077	83,353	1,598,628	3,198,609
Operating Expenses	3,559,723	439,676	505,000	4,504,399	419,778	595,000	4,574,501	9,078,900
Equipment	20,075	18,000	15,000	53,075	15,000	15,000	50,075	103,150
Capital Outlay	0	0	0	0	0	0	0	0
Total Costs	\$4,740,996	\$813,939	\$602,520	\$6,157,455	\$788,855	\$693,353	\$6,223,204	\$12,380,659
General Fund	1,163,402	44,043	0	1,207,445	21,870	0	1,185,272	2,392,717
State/Other Special	17,561	8,439	270,000	296,000	8,439	360,000	386,000	682,000
Federal Special	3,560,033	761,457	332,520	4,654,010	758,546	333,353	4,651,932	9,305,942
Total Funds	\$4,740,996	\$813,939	\$602,520	\$6,157,455	\$788,855	\$693,353	\$6,223,204	\$12,380,659

Program Description

The Army National Guard provides trained and equipped military units for use in the event of a state or federal mobilization to active duty. Specifically, the Army National Guard program supports this end by: 1) providing professional and skilled personnel for the administration, planning, and execution of statewide repair and maintenance functions on facilities and training areas; 2) planning, programming, and contracting for construction; 3) ensuring all activities and facilities comply with environmental regulations; and 4) providing state-wide communication services, security contracts, and leases for buildings and land used by the Army National Guard.

Army National Guard Program Major Budget Highlights	
○	Executive reduces general fund within the program to continue the Governor's fiscal 2003 expenditure reductions and August 2002 special session reductions
Major LFD Issues	
○	Recovery of facility use charges associated with shared usage of the Montana National Guard Distance Learning Network may allow the department to offset general fund for facility operations

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Army National Guard Pgm						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,163,402	24.5%	\$ 1,207,445	19.6%	\$ 1,185,272	19.0%
02101 Distance Learning	-	-	270,000	4.4%	360,000	5.8%
02343 Armory Rental Funds	17,561	0.4%	26,000	0.4%	26,000	0.4%
03132 National Guard	3,560,033	75.1%	4,654,010	75.6%	4,651,932	74.8%
Grand Total	\$ 4,740,996	100.0%	\$ 6,157,455	100.0%	\$ 6,223,204	100.0%

The Army National Guard program is primarily funded with a combination of general fund and federal funds. Depending on how a facility is used, the costs to operate and maintain a facility can be funded:

- o entirely with state funds
- o entirely with federal funds
- o as a shared responsibility, with federal funds at 75 percent and general fund at 25 percent (service contract buildings)

When a facility is owned by the state and located on state land, the funding is 100 percent general fund. When a facility is state owned but located on federal land, the maintenance costs are funded 75 percent federal and 25 percent general fund, but utility costs are funded 100 percent general fund. When a facility is classified as a logistics facility, the funding is 75 percent federal and 25 percent general fund for the entire facility. Federally owned facilities located on federal land and those that serve a training mission are predominantly funded 100 percent with federal funds, except when the building is used as an armory. Armories constructed with federal funds and located on federal land are funded 100 percent general fund for utilities and 75 percent federal and 25 percent general fund for maintenance costs. When armories are rented to groups, the state special revenue funds generated from rental fees are used to augment general fund support of the facilities.

During the base year, general fund accounted for 25 percent of overall expenditures within the Army National Guard program.

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				433,776						431,551
Vacancy Savings				(63,749)						(63,710)
Inflation/Deflation				47,849						56,242
Fixed Costs				37,426						12,917
Total Statewide Present Law Adjustments				\$455,302						\$437,000
DP 5 - Army Facilities Operations										
0.00	(58,517)	0	144,154	85,637	0.00	(58,117)	0	143,972	85,855	
DP 9 - MTNG Distance Learning Network - Comm. Adjust										
0.00	0	0	266,000	266,000	0.00	0	0	266,000	266,000	
DP 13 - Construction Replacement Computers										
0.00	0	0	7,000	7,000	0.00	0	0	0	0	
Total Other Present Law Adjustments										
0.00	(\$58,517)	\$0	\$417,154	\$358,637	0.00	(\$58,117)	\$0	\$409,972	\$351,855	
Grand Total All Present Law Adjustments				\$813,939						\$788,855

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 5 - Army Facilities Operations - The executive requests additional federal authority to fund increased operating and maintenance costs which are 100 percent federally-supported:

- o janitorial services for newly constructed facilities
- o utility costs for new facilities
- o additional contract maintenance projects

This request also includes an adjustment to reduce general fund within the division by approximately \$58,000 each year of the biennium, to meet the department's mandated general fund reduction, based on a continuation of the Governor's fiscal 2003 expenditure reductions and reductions made during the 2003 special session. This proposal represents the division share based on department reallocation of the overall reduction and includes the reduction of federal funds as a result of loss of state match funding.

LFD COMMENT This reduction has been applied to general categories of expenditures, making impacts upon the division difficult to identify. However, the department has stated it will reallocate funding as needed, but will most likely reduce planned expenditures for programmed maintenance to state-owned facilities, utilities, and janitorial services for new or future facilities.

DP 9 - MTNG Distance Learning Network - Comm. Adjust - The executive requests an additional \$266,000 of federal authority in each year of the biennium to accommodate increased funding and expenditures to maintain voice and data communications at a level necessary to support existing military communications operational needs.

DP 13 - Construction Replacement Computers - The executive requests additional federal authority to replace four computer systems and upgrade one laptop computer in fiscal 2004.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	
DP 8 - Environmental Program Operations										
12	2.00	0	0	332,520	332,520	2.00	0	0	333,353	333,353
DP 14 - MTNG Distance Learning										
12	0.00	0	270,000	0	270,000	0.00	0	360,000	0	360,000
Total	2.00	\$0	\$270,000	\$332,520	\$602,520	2.00	\$0	\$360,000	\$333,353	\$693,353

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 8 - Environmental Program Operations - The executive requests additional federal authority (\$333,000 each year) for the following:

- Move 2.0 FTE from modified to permanent (\$83,000 each year). These FTE are currently established in the Environmental Program as the Environment Technical Support Specialist and the Environmental Compliance Assessment Specialist.
- Accommodate increased federal funding for Environmental Program Operations (\$250,000 each year). The increased federal funding will be used to support the ongoing environmental compliance program (hazardous waste disposal, spill response supplies, environmental documentation of new activities, facility management plans, and natural resource studies).

DP 14 - MTNG Distance Learning - The executive requests state special revenue authority to accommodate implementation of shared usage of the Montana National Guard Distance Learning Network. This authority would be used to reimburse federal funds for use of the network by local, state, and federal governments, or private individuals, and will also be used to accumulate funding for replacement equipment based on a life-cycle cost model.

The department states it will not have its 28 operational classrooms available for widespread for-fee use until late fiscal year 2003. With no historical usage on which to base expenditures, the request is an estimate based on 16 hours of for-fee use of the classrooms per month in the first year and 33 percent growth in for-fee use in the second year.

This request is for \$270,000 in fiscal 2004 and \$360,000 in fiscal 2005.

**LFD
ISSUE**

The department is currently re-working its proposed fee structure for recovering shared usage costs. However, information provided by the department for the 2001 session indicated an armory usage fee of \$15.90. Using that same information with the projected number of hours for the 2005 biennium gives a potential reimbursement to the state of approximately \$7,000 in fiscal 2004 and \$9,500 in fiscal 2005. Therefore, if the legislature accepts this decision package based on department projections, it may wish to reduce general fund by these amounts for the biennium.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	33.00	0.00	0.00	33.00	0.00	0.00	33.00	33.00
Personal Services	1,303,255	83,352	0	1,386,607	85,825	0	1,389,080	2,775,687
Operating Expenses	876,269	306,160	0	1,182,429	304,963	0	1,181,232	2,363,661
Total Costs	\$2,179,524	\$389,512	\$0	\$2,569,036	\$390,788	\$0	\$2,570,312	\$5,139,348
General Fund	188,423	120,359	0	308,782	119,985	0	308,408	617,190
Federal Special	1,991,101	269,153	0	2,260,254	270,803	0	2,261,904	4,522,158
Total Funds	\$2,179,524	\$389,512	\$0	\$2,569,036	\$390,788	\$0	\$2,570,312	\$5,139,348

Program Description

The Air National Guard program provides trained and equipped military units for use in the event of a state or federal mobilization to active duty. The federal/state cooperative agreement provides for administrative, facilities maintenance, and fire protection support to the Air National Guard base at Gore Hill near Great Falls. The Air National Guard Program operates under both federal and state mandates in accordance with its dual missions.

Air National Guard Program Major Budget Highlights	
○	General fund within program increases by 63 percent to assume costs associated with federally funded construction
Major LFD Issues	
○	Long-range planning review of state costs to operate facilities constructed with federal funds would help identify long-term issues associated with such construction

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Air National Guard Pgm						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 188,423	8.6%	\$ 308,782	12.0%	\$ 308,408	12.0%
03132 National Guard	1,991,101	91.4%	2,260,254	88.0%	2,261,904	88.0%
Grand Total	\$2,179,524	100.0%	\$2,569,036	100.0%	\$2,570,312	100.0%

The Air Guard program is primarily funded with 75 percent federal funds and 25 percent general fund state match. Personal services costs for firefighters and security services are 100 percent federally funded.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					142,408					144,989
Vacancy Savings					(57,826)					(57,934)
Inflation/Deflation					13,991					18,311
Fixed Costs					18,590					13,074
Total Statewide Present Law Adjustments					\$117,163	\$118,440				
DP 4 - Air Guard Operations	0.00	75,588	0	196,761	272,349	0.00	75,587	0	196,761	272,348
Total Other Present Law Adjustments										
	0.00	\$75,588	\$0	\$196,761	\$272,349	0.00	\$75,587	\$0	\$196,761	\$272,348
Grand Total All Present Law Adjustments					\$389,512	\$390,788				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 4 - Air Guard Operations - The executive requests additional general fund and federal authority to fund increased utilities, contract services, and supply costs.

LFD
ISSUE

This request increases general fund within the Air Guard by 63 percent over base year expenditures. Of this request, \$151,000 in fiscal 2004 and \$179,000 in fiscal 2005 is for projected utility increases to accommodate the addition of over 20,000 square feet in new facilities by the end of fiscal 2004. Construction of the facilities was funded with federal funds. However, the state has assumed a portion of the operational costs. This increase highlights the need for a review of the state-assumed cost to support facilities constructed with federal funds. Therefore, the legislature may wish to direct future budgets to project such costs.

Options:

- Require that the executive budget include an analysis of the long-term costs to the state of assuming operational costs for facilities constructed with federal funds.
- Take no action.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	21.00	0.00	2.00	23.00	0.00	2.00	23.00	23.00
Personal Services	979,771	27,218	95,110	1,102,099	28,048	94,827	1,102,646	2,204,745
Operating Expenses	225,773	(11,640)	44,620	258,753	(12,876)	44,633	257,530	516,283
Equipment	2,467	0	0	2,467	0	0	2,467	4,934
Grants	685,992	0	2,777,000	3,462,992	0	2,777,000	3,462,992	6,925,984
Total Costs	\$1,894,003	\$15,578	\$2,916,730	\$4,826,311	\$15,172	\$2,916,460	\$4,825,635	\$9,651,946
General Fund	505,871	18,998	(25,000)	499,869	19,111	(25,270)	499,712	999,581
State/Other Special	13,700	0	0	13,700	0	0	13,700	27,400
Federal Special	1,374,432	(3,420)	2,941,730	4,312,742	(3,939)	2,941,730	4,312,223	8,624,965
Total Funds	\$1,894,003	\$15,578	\$2,916,730	\$4,826,311	\$15,172	\$2,916,460	\$4,825,635	\$9,651,946

Program Description

The Disaster and Emergency Services Division: 1) works with local, state, and federal officials to prepare, update, and coordinate emergency preparedness, mitigation, response, and recovery plans; 2) provides technical assistance and coordination of the state response to assist political subdivisions in time of emergencies; and 3) receives, records, and disburses federal funds to eligible political subdivisions. Political subdivisions must provide matching funds for all federal reimbursement programs except disaster recovery and the Federal Emergency Management Agency Terrorism program. The division is responsible for disaster planning activities, responding quickly and effectively to disasters and emergencies, being a source of information and a 24-hour contact point, and coordinating state assistance to local governments.

Disaster and Emergency Services Division Major Budget Highlights	
○ Increased grants related to Weapons of Mass Destruction response planning and training ○ 1.0 FTE eliminated from division to accommodate division share of overall department general fund reduction	
Major LFD Issues	
○ None	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Disaster & Emergency Services						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 505,871	26.7%	\$ 499,869	10.4%	\$ 499,712	10.4%
02335 Des Training Conference	13,700	0.7%	13,700	0.3%	13,700	0.3%
03022 Federal Disaster Assistance	-	-	-	-	-	-
03134 Disaster & Emergency Services	1,374,432	72.6%	4,312,742	89.4%	4,312,223	89.4%
Grand Total	\$ 1,894,003	100.0%	\$ 4,826,311	100.0%	\$ 4,825,635	100.0%

The Disaster and Emergency Services Division is supported primarily with federal funds and general fund used as state match. The disaster coordination functions that provide support to communities and contribute to the overall mission of the division are usually funded on a 50/50 federal fund to general fund ratio. Disaster coordination functions focusing on specifically identified hazards or functions are usually funded (100 percent) with federal funds. State special revenue within the division comes from fees paid by individuals who attend division-sponsored workshops and conferences, and is used to support these functions.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				69,176					70,042
Vacancy Savings				(41,958)					(41,994)
Inflation/Deflation				1,463					1,484
Fixed Costs				(13,103)					(14,360)
Total Statewide Present Law Adjustments				\$15,578					\$15,172
Grand Total All Present Law Adjustments				\$15,578					\$15,172

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 210 - Terrorism Preparedness and Equipment										
21	3.00	0	0	2,967,000	2,967,000	3.00	0	0	2,967,000	2,967,000
DP 7002 - Reduce Current Level FTE - DES										
21	(1.00)	(25,000)	0	(25,270)	(50,270)	(1.00)	(25,270)	0	(25,270)	(50,540)
Total	2.00	(\$25,000)	\$0	\$2,941,730	\$2,916,730	2.00	(\$25,270)	\$0	\$2,941,730	\$2,916,460

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 210 - Terrorism Preparedness and Equipment - The executive requests additional federal authority to accommodate United States Department of Justice funding to provide equipment, exercise and training support for first responders at the state and local level, based on the Statewide Domestic Preparedness Strategy which was a requirement for receiving this funding. The objective of this funding is to enhance the capability of state and local first responders to respond to a

Weapons of Mass Destruction incident involving chemical, biological, nuclear, radiological, incendiary, and explosive devises. This request also includes 3.0 temporary FTE who will manage exercise development and implementation, in addition to the overall grant.

**LFD
ISSUE**

This funding is not guaranteed to be ongoing. Therefore, the legislature may wish to approve this request on a one-time-only basis.

DP 7002 - Reduce Current Level FTE - DES - The executive proposes to reduce current level FTE in Disaster and Emergency Services by 1.0 FTE, Emergency Management Specialist. Duties currently performed by this position include working with assigned counties (currently 8-10 per individual) in preparation, exercises, training, response, and recovery from emergencies. These positions work with both local and tribal government.

**LFD
COMMENT**

This reduction is applied to meet the department's mandated general fund reduction, based on a continuation of the Governor's fiscal 2003 expenditure reductions and reductions made during the 2003 special session. This reduction represents the division share based on the department reallocation of the overall reduction.

The department states this reduction will result in a layoff of a current employee. Responsibility for counties will be redistributed among remaining specialists, reducing the amount of time each specialist is able to provide to individual counties.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	19.50	0.50	(1.00)	19.00	0.50	(1.00)	19.00	19.00
Personal Services	690,244	58,998	(36,068)	713,174	59,288	(36,068)	713,464	1,426,638
Operating Expenses	151,860	31,747	0	183,607	32,734	0	184,594	368,201
Total Costs	\$842,104	\$90,745	(\$36,068)	\$896,781	\$92,022	(\$36,068)	\$898,058	\$1,794,839
General Fund	722,021	23,503	(36,068)	709,456	24,616	(36,068)	710,569	1,420,025
State/Other Special	120,083	67,242	0	187,325	67,406	0	187,489	374,814
Total Funds	\$842,104	\$90,745	(\$36,068)	\$896,781	\$92,022	(\$36,068)	\$898,058	\$1,794,839

Program Description

The Veterans Affairs Division assists discharged veterans and their families, cooperates with state and federal agencies, promotes the general welfare of veterans, and provides information on veteran benefits. The program also administers the veteran cemeteries located at Miles City and at Fort Harrison, in Helena. The Board of Veterans' Affairs is administratively attached to the Department of Military Affairs, and operates under a state mandate provided in Title 10, Chapter 2, MCA.

Veterans' Affairs Division Major Budget Highlights	
o	1.0 FTE eliminated from division to accommodate division share of overall department general fund reduction
Major LFD Issues	
o	Likely reduction of services under executive proposal
o	Re-prioritization and/or expansion of desired services is likely, based on workings of Veterans' Interagency Coordinating Council
o	Alternate funding sources can potentially be used to offset/replace general fund

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Veterans Affairs Program							
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005	
01100 General Fund	\$ 722,021	85.7%	\$ 709,456	79.1%	\$ 710,569	79.1%	
02214 Veterans Affairs Cemeteries	113,957	13.5%	147,325	16.4%	147,489	16.4%	
02550 Ft Harr Va Cemetery Donations	-	-	10,000	1.1%	10,000	1.1%	
02551 Ft Harr Va Cemetery Plot Allow	5,797	0.7%	10,000	1.1%	10,000	1.1%	
02552 Estrn Mt Va Cemetery Plot All	329	0.0%	10,000	1.1%	10,000	1.1%	
02553 Estrn Mt Va Cemetery Donations	-	-	10,000	1.1%	10,000	1.1%	
Grand Total	\$ 842,104	100.0%	\$ 896,781	100.0%	\$ 898,058	100.0%	

The Veterans' Affairs Division is funded with general fund for all functions except cemetery operations. Veteran cemetery operations are fully funded by state special revenue received primarily from the sale of veteran license plates, with a smaller portion being received from donations and cemetery plot allowances.

Present Law Adjustments										
	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					58,703					59,021
Vacancy Savings					(29,958)					(29,972)
Inflation/Deflation					532					2,341
Fixed Costs					1,036					369
Total Statewide Present Law Adjustments					\$30,313					\$31,759
DP 18 - Veterans Cemeteries Operations	0.50	0	60,432	0	60,432	0.50	0	60,263	0	60,263
Total Other Present Law Adjustments	0.50	\$0	\$60,432	\$0	\$60,432	0.50	\$0	\$60,263	\$0	\$60,263
Grand Total All Present Law Adjustments					\$90,745					\$92,022

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 18 - Veterans Cemeteries Operations - The executive requests additional state special revenue authority from the Veterans' Affairs Cemeteries fund for an additional 0.5 FTE and increased operating expenses related to operation of the two Veterans' Affairs Cemeteries.

New Proposals											
Program	-----Fiscal 2004-----					-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 7001 - Reduce Current Level FTE - Veterans Affairs Div.	31	(1.00)	(36,068)	0	0	(36,068)	(1.00)	(36,068)	0	0	(36,068)
Total	(1.00)	(\$36,068)	\$0	\$0	(\$36,068)	(1.00)	(\$36,068)	\$0	\$0	(\$36,068)	

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7001 - Reduce Current Level FTE - Veterans Affairs Div. - The executive proposes to reduce current level FTE in the Veterans' Affairs Division by 1.0 FTE, Veteran Service Representative. This position, established in each Veterans' Service Office, handles a wide range of duties associated with assisting and representing veterans in various stages of interaction with the state and federal government.

LFD COMMENT

This decision package is part of a department-wide adjustment to meet the department's mandated general fund reduction, based on a continuation of the Governor's fiscal 2003 expenditure reductions and reductions made during the 2003 special session. This reduction represents the division share based on department reallocation of the overall reduction.

Veteran services as provided by the division have historically been defined as providing information on veteran benefits and aiding veterans in applying for those benefits, primarily with records retrieval and paperwork completion. The department has stated this reduction would most likely be addressed using one of the following options:

- the closure of a Veterans' Service Office, and elimination of 2.0 FTE associated with that office
- reduction in hours of Veterans' Service Office personnel, up to the elimination of FTE, as necessary to stay within budget
- increased use of Veterans' Affairs Cemeteries state special revenue funding to supplement general fund appropriated to the division

Of those three options, increasing the share of costs borne by the cemeteries fund is the only option that will not necessarily lead to a reduction in services for those serviced by the Veterans' Service Offices.

The division states that no decisions on office closures or FTE re-alignments have been made. The decision to close or reduce operating hours of an office would depend upon the workload, overhead costs, and the availability of other Veterans' Service Offices to take care of the displaced clients.

The reduction of 1.0 FTE can be expected to impact current operations at some, if not all, offices. Although the division will be able to reallocate operating expenses within the various offices, the division will be clearly required to find efficiencies within current operations in order to maintain the same level and quality of services it normally provides.

The 2001 legislature implemented a funding switch whereby approximately \$12,000 general fund each year was replaced with \$12,000 of state special revenue from the Veterans' Affairs Cemeteries state special revenue fund. This switch was implemented to ensure the state special revenue paid an appropriate share for the support services provided by division staff, who were formerly funded entirely with general fund. The division has stated it would request a transfer of additional state special revenue authority to allow increased use of the Veterans' Affairs Cemeteries funding to allow the division to finish fiscal 2003 without closing an office or further reducing FTE.

A June 2002 Legislative Audit Division audit of the Veterans Affairs Division contained several recommendations for improving efficiency of operations and improving the ability of staff to provide quality services. These included recommendations to:

- upgrade management information systems and communications equipment*
- evaluate staff travel efficiency and develop alternatives for providing rural outreach services
- establish policies for key activities
- review and revise technician and officer classifications
- provide additional training and formalized mentoring*
- evaluate staff activities and work priorities

For at least two of these recommendations (marked with an asterisk) the Board of Veterans' Affairs responded that additional general fund would be needed to fully implement.

In response to an LFD request for a progress report in addressing the audit, the division states that progress has been made on several of the recommendations, including outlining policies for service and quality control review, as well as moving toward standardized, updated position descriptions for both the state grade 11 and 12 positions. Additionally, to help evaluate work priorities, the division has established the Veterans' Interagency Coordinating Council. This council has seven members and is chaired by the administrator of the Montana Veterans' Affairs Division. One of the stated purposes of this council is "effectively, efficiently, and systematically identifying and pursuing issues and initiatives significant to veterans' well-being and services provision." This council appears to provide a new avenue for determining and prioritizing the services desired and needed by Montana's veteran populace.

However, in areas where additional funding is needed, such as upgraded information technology equipment, little progress has been made. Where it can, the division has partnered with the Army National Guard to partner on enhanced communications capabilities at those armories housing a Veterans Service Office. This division also states that due to

fiscal 2003 budget reductions, the division plans to turn in four state vehicles and curtail rural outreach for the fourth quarter of fiscal 2003.

There are three primary issues when analyzing the Veterans' Affairs Division's budget.

- Under the executive proposal, it appears services currently provided by the division will be reduced through closure of a Veterans' Services Office, office hours reduction, reduced rural outreach, or fewer service officers to serve veterans. Implementing recommendations from the recent audit may alleviate some, but most likely not all, reductions in service
- It is possible that the Veterans' Interagency Coordinating Council will identify the need for additional services beyond those historically provided by the division. There is insufficient funding to expand services
- Alternate funding sources, including selling specialized license plates or earmarking a portion of vehicle registration fees, might be used to replace or supplement general fund in the division

Options:

- accept the executive funding proposal and direct the division to work with the Veterans' Interagency Coordinating Council to prioritize services to veterans
- do not accept the executive proposal to reduce the division by 1.0 FTE
- increase the amount of Veterans' Affairs Cemeteries funding allocated to the department
- replace or supplement all or some general fund with an alternate funding source

EDUCATION

Section E

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE COMMITTEES

-----Agencies-----

Office of Public Instruction
Board of Public Education
School for the Deaf and Blind
Montana Arts Council
State Library Commission
Montana Historical Society

Montana University System (MUS)
Commissioner of Higher Education/
Community Colleges
University Units and College of Technology
Agricultural Experiment Station
Extension Service
Forestry & Conservation Experiment Station
Bureau of Mines & Geology
Fire Services Training School

-----Committee Members-----

House

Representative Donald Hedges (Chair)
Representative Eve Franklin
Representative Dave Lewis
Representative Rosie Buzzas

Senate

Senator Royal Johnson (Vice-Chair)
Senator Bea McCarthy
Senator John Esp

-----Fiscal Division Staff-----

Pam Joehler
Lynn Zanto
Jim Standaert

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	114.91	3.10	7.30	125.31	3.10	7.30	125.31	125.31
Personal Services	5,345,610	513,585	119,007	5,978,202	514,649	113,343	5,973,602	11,951,804
Operating Expenses	5,491,564	973,068	4,660,104	11,124,736	1,047,922	4,689,869	11,229,355	22,354,091
Equipment	38,651	0	0	38,651	0	0	38,651	77,302
Local Assistance	556,690,550	(43,162,127)	(4,449,816)	509,078,607	(50,348,822)	7,752,493	514,094,221	1,023,172,828
Grants	88,069,720	16,874,513	6,398,056	111,342,289	21,345,429	6,483,056	115,898,205	227,240,494
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$655,636,095	(\$24,800,961)	\$6,727,351	\$637,562,485	(\$27,440,822)	\$19,038,761	\$647,234,034	\$1,284,796,519
General Fund	560,554,778	(42,729,269)	(8,696,434)	509,129,075	(49,910,740)	3,248,645	513,892,683	1,023,021,758
State/Other Special	1,092,119	(148,554)	4,098,000	5,041,565	(147,746)	4,360,000	5,304,373	10,345,938
Federal Special	93,898,407	18,167,653	11,325,785	123,391,845	22,708,455	11,430,116	128,036,978	251,428,823
Proprietary	90,791	(90,791)	0	0	(90,791)	0	0	0
Total Funds	\$655,636,095	(\$24,800,961)	\$6,727,351	\$637,562,485	(\$27,440,822)	\$19,038,761	\$647,234,034	\$1,284,796,519

Agency Description

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. The Office of Public Instruction (OPI) provides distribution of funding and services to Montana's school-age children and to teachers in approximately 450 school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff also administers a number of federally-funded programs and provides a variety of information services.

Supplemental Appropriation Description

The Executive Budget includes \$3.5 million in supplemental Base aid authority for fiscal 2003.

Base aid appropriation authority was established by the 57th legislature in HB 2 at \$440.8 million in fiscal 2002 and at \$443.9 million in fiscal 2003. In fiscal 2002, actual spending was \$2.1 million less than appropriated. Since Base aid authority is biennial this amount is available for use in fiscal 2003. However subsequent information regarding fiscal 2003 expenditures and common school trust revenues has become available.

The Base aid amounts authorized by the 57th legislature were based on estimates of the base aid components for each districts budget including taxable value and non-levy revenues, a major component of which are HB 124 block grants. HB 124 block grants are payments to school districts that are made to reimburse districts for revenues that now flow to the state, such as motor vehicle taxes and fees, and personal property reimbursements. The August 2002 special session reduced the amount of fiscal 2003 school district block grants in light of information regarding an error in the way vehicle taxes were calculated in the initial year. In addition, new information for fiscal 2003 taxable values and non-levy revenues became available. These changes increased guaranteed tax base (GTB) aid in fiscal 2003 by \$3.1 million, for both the district general fund component and the retirement component of Base aid. In addition, there are savings of approximately \$0.2 million in direct state aid as a result of fewer ANB than had been projected at the end of the regular session.

HB 7, passed during the August special session, created a new state special account from which a portion of Base aid is to be paid in fiscal 2003 and beyond. The new state special guarantee account receives interest and income (I&I) from the common school trust and trust lands. In fiscal 2003, these revenues are to be used to pay for two things: 1) interest on the SB 495 loan from the coal tax trust to the common school trust, and 2) Base aid. The net authority to pay Base aid out of the guarantee fund is statutorily appropriated, i.e. the amount available for Base aid is limited to the amount of net common school trust interest and income deposited in the fund, after the interest payment for the SB495 loan has been deducted.

During the August special session, it was expected that \$51.7 million in I&I revenue would be deposited in the guarantee account in fiscal 2003. HB 2 general fund appropriation authority for Base aid was reduced accordingly, by \$51.7 million. This amount, however, was not net of the SB 495 interest payment of approximately \$3.4 million, and thus the reduction in general fund Base aid authority was overstated.

Figure 1
BASE Aid Supplemental
Fiscal 2003

BASE Aid Component	Appropriated	Expected Spending	Difference Appropriation less Spending
General Fund			
Base Aid Authority carried over from Fiscal 2002	\$ 2,067,104	\$ -	\$ 2,067,104
Direct State Aid from General Fund	271,788,386	273,498,731	(1,710,346)
General Fund GTB	99,945,902	101,737,909	(1,792,007)
Retirement GTB	20,454,712	21,796,641	(1,341,929)
Total Base Aid	394,256,103	397,033,281	(2,777,178)
Guarantee Fund Analysis			
	Statutorily Appropriated	Expected Revenue	Difference
Total Fiscal 2003 Revenue in Guarantee Fund	\$ 49,901,000	\$ 51,175,245	\$ 1,274,245
Fiscal 2002 Timber revenue available for Base Aid	\$ 1,800,000	\$ 1,822,162	\$ 22,162
Interest to pay SB495 loan	-	(3,245,683)	(3,245,683)
Net Available for BASE Aid	\$ 51,701,000	\$ 49,751,724	\$ (1,949,276)

In November 2002, a new estimate of fiscal 2003 I&I income in the guarantee fund is available as adopted by the Revenue and Transportation Interim committee. After deducting SB 495 loan interest, the net amount expected to be available for Base aid is \$49.8 million, \$1.9 million less than the August special session estimate. The BASE Aid supplement is the revenue shortfall in the guarantee account plus the adjustments due to new information on taxable values, non-levy revenues, and ANB counts. As shown in

figure 1, the appropriated BASE Aid amount in the general fund is lower than expected BASE Aid spending in the general fund by \$2.8 million. This is the amount of the expected supplemental

LFD ISSUE

The Executive Budget contains a supplemental of \$3.5 million compared with the supplemental of \$2.8 million explained above. This is because the Executive Budget assumes lower I&I revenue in the guarantee fund. The choice of which supplemental is the correct one is critical if school districts are to receive the statutorily defined amount of Base aid in fiscal 2003. If both estimates of net available I&I revenue in the guarantee fund are too high, the available Base aid supplemental request would be too low, i.e. after spending the general fund Base aid authority, not enough cash would be available in the guarantee account (due to insufficient I&I revenues) to pay the required amount of Base aid costs.

The amount of I&I revenue available for Base aid deposited in the guarantee fund will not be known until the end of fiscal 2003, well after the 2003 legislative session is finished. In the absence of a special session, the Office of Public Instruction (OPI) would have only one choice in the event of insufficient I&I revenues: borrow the cash from the general fund. However, OPI would have no means with which to pay back the loan.

The legislature may want to consider the following option in case there is an unforeseen revenue shortfall in the guarantee fund in fiscal 2003. In HB 3, contingency language could be inserted that increases general fund Base aid appropriation authority up to an amount that is virtually certain to account for possible shortfalls in fiscal 2003 I&I revenues available for Base aid. Based on past history of I&I revenues this upper limit may be as high as \$8.0 million. This is twice the standard deviation of historical I&I revenues from 1990 through fiscal 2002, and represents a 5 percent probability that revenues will be short of the estimate by more than this amount. In future biennia, the legislature may want to increase the predictability of I&I revenues in the final year of the biennium. This could be done by depositing I&I revenue in the guarantee fund on a monthly basis rather than approximately 1/3rd in February and 2/3rds in June.

Executive Recommended Legislation

The Executive Budget is dependent upon passage of several pieces of legislation:

- o Average ANB for calculating district general fund budgets in fiscal 2005
- o Increase Basic and per-ANB entitlements, and reduce the direct state aid percentage
- o Partially eliminate district transportation HB 124 block grants and use to fund increases in state transportation aid
- o Eliminate school facility HB 124 block grants and use to fund increases in the school facility entitlements
- o Use Treasure State Endowment Program monies to increase funding for the school facility reimbursement program
- o Institute a teacher loan repayment program
- o Reallocate timber revenue to pay for Base aid
- o Require district funds other than the general fund to pay for their own retirement costs
- o Eliminate growth in all remaining district and county HB 124 block grants.

Each proposal is discussed in the program narratives that follow.

Agency Discussion

Department of the Office of Public Instruction
Major Budget Highlights
○ OPI’s Administration budget increases by \$12.4 million during the 2005 biennium compared with fiscal 2002. \$12.3 million is federal funds for testing, and implementation of the “No Child Left Behind” Act. ○ OPI’s budget for distribution to schools increases by \$51.3 million during the 2005 biennium, virtually all of which is federal funds. The executive proposes: ○ To increase the amount distributed to schools from state sources by only \$152 during the 2005 biennium compared with fiscal 2002. ○ To increase state support by increasing entitlements, school facility reimbursements, transportation and 3-year averaging of enrollments. ○ To reduce state support by reducing direct state aid, HB 124 block grants, teachers’ retirement contributions and technology purchases. ○ To utilize more state special funds rather than the general fund to pay for school costs. ○ To spend increases in federal funds of \$23.4 million in fiscal 2004 and \$27.9 million in fiscal 2005 primarily on teacher and principal training, special education, and several new programs associated with the “No Child Left Behind” Act.
Major LFD Issues
○ The executive proposal increases school funding complexity by utilizing state accounts other than the general fund to distribute money to schools. ○ The executive is requesting a Base aid supplemental for fiscal 2003. Because Base aid payments are now partly dependent upon the revenue deposited in the new state special guarantee account, the correct amount for the supplemental is highly uncertain. If the supplemental is set too low, OPI may not have a way to pay for Base aid in fiscal 2003. ○ The executive proposal decreases Base aid below fiscal 2002 levels and increases state support for non-classroom expenditures. ○ The executive’s proposal regarding the redistribution of HB 124 block grant monies, as well as its retirement proposal, will result in large shifts in property taxes between districts and counties, although the impact on property taxes statewide is small. ○ The executive’s proposal to require funds other than the district general fund to pay the retirement costs associated with each fund’s own salaries, may result in service reductions and /or tax increases for other district funds ○ The executive’s retirement proposal may violate the federal prohibition on the use of federal funds to supplant local funds ○ The executive’s proposal on averaging ANB in fiscal 2005 will increase present law costs in the 2007 biennium. ○ The executive proposal does not account for the impact of the fiscal 2004 statewide reappraisal of property values on state guaranteed tax base costs.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow. OPI has two programs, state level activities, more commonly known as OPI administration, and local education activities, more commonly known as the distribution to schools program. OPI administration receives nearly 25 percent of its funding from the general fund and state special revenue accounts. The remainder of the OPI administration program is funded by federal funds. The distribution to schools program is funded primarily from general fund although federal revenue is a growing source of funds. Administration utilizes 2.6 percent of the funds requested and the remainder flows to school districts.

Total Agency Funding 2005 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
State Level Activities	\$ 8,995,532	\$ 387,938	\$ 24,568,309	\$ 33,951,779	2.6%
Local Education Activities	1,014,026,226	9,958,000	226,860,514	1,250,844,740	97.4%
Grand Total	\$ 1,023,021,758	\$ 10,345,938	\$ 251,428,823	\$1,284,796,519	100.0%

The following table shows a biennial comparison of proposed agency expenditures in the 2005 biennium and the 2003 biennium. Total spending for both programs in OPI as budgeted in HB 2 will fall approximately \$7 million between the two biennia. General fund spending decreases \$53.2 million, federal funds increase \$38.2 million, state special funds increase by \$8.3 million and proprietary fund decrease by \$0.2 million. This gives a misleading picture of the total agencies budget because not shown is spending from the guarantee fund, which statutorily appropriates common school interest and income and does not appear in HB 2. In fiscal 2002, this money was appropriated in the general fund in HB 2. Beginning in fiscal 2003, the authority to spend this money out of the general fund was removed and placed in the new state special guarantee account.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	118.01	7.30	125.31	118.01	7.30	125.31	114.91	125.31
Personal Services	5,859,195	119,007	5,978,202	5,860,259	113,343	5,973,602	10,685,329	11,951,804
Operating Expenses	6,464,632	4,660,104	11,124,736	6,539,486	4,689,869	11,229,355	13,874,582	22,354,091
Equipment	38,651	0	38,651	38,651	0	38,651	95,752	77,302
Local Assistance	513,528,423	(4,449,816)	509,078,607	506,341,728	7,752,493	514,094,221	1,068,346,646	1,023,172,828
Grants	104,944,233	6,398,056	111,342,289	109,415,149	6,483,056	115,898,205	198,629,277	227,240,494
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$630,835,134	\$6,727,351	\$637,562,485	\$628,195,273	\$19,038,761	\$647,234,034	\$1,291,631,586	\$1,284,796,519
General Fund	517,825,509	(8,696,434)	509,129,075	510,644,038	3,248,645	513,892,683	1,076,198,614	1,023,021,758
State/Other Special	943,565	4,098,000	5,041,565	944,373	4,360,000	5,304,373	2,034,739	10,345,938
Federal Special	112,066,060	11,325,785	123,391,845	116,606,862	11,430,116	128,036,978	213,207,442	251,428,823
Proprietary	0	0	0	0	0	0	190,791	0
Total Funds	\$630,835,134	\$6,727,351	\$637,562,485	\$628,195,273	\$19,038,761	\$647,234,034	\$1,291,631,586	\$1,284,796,519

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 13 - Statewide Student Assessment										
06	0.00	253,250	0	0	253,250	0.00	263,250	0	0	263,250
DP 32 - Community Service Grant Program										
09	0.00	0	0	250,000	250,000	0.00	0	0	250,000	250,000
DP 33 - Federal Assessment Requirement										
06	5.00	0	0	3,700,000	3,700,000	5.00	0	0	3,700,000	3,700,000
DP 34 - National Assessment of Educational Progress										
06	1.00	0	0	75,000	75,000	1.00	0	0	78,000	78,000
DP 35 - Advanced Placement Incentive										
06	0.50	0	0	50,154	50,154	0.50	0	0	50,123	50,123
DP 36 - Character Education										
06	1.30	0	0	75,000	75,000	1.30	0	0	75,000	75,000
DP 39 - Reading First										
06	1.50	0	0	610,000	610,000	1.50	0	0	625,000	625,000
DP 39 - Reading First - Federal Title I, Part B, Subpart I										
09	0.00	0	0	2,890,000	2,890,000	0.00	0	0	2,975,000	2,975,000
DP 40 - REI / Rural Low Income Schools										
06	0.00	0	0	24,108	24,108	0.00	0	0	24,108	24,108
DP 41 - REI / Rural Low Income Schools										
09	0.00	0	0	458,056	458,056	0.00	0	0	458,056	458,056
DP 43 - Title IV 21st Century Community Learning Centers										
06	1.00	0	0	140,000	140,000	1.00	0	0	140,000	140,000
DP 43 - Title IV 21st Century Community Learning Centers										
09	0.00	0	0	2,800,000	2,800,000	0.00	0	0	2,800,000	2,800,000
DP 44 - Troops to Teachers										
06	0.00	0	0	253,467	253,467	0.00	0	0	254,829	254,829
DP 7020 - Reduction to balance the budget										
06	(3.00)	(401,868)	0	0	(401,868)	(3.00)	(407,098)	0	0	(407,098)
DP 8210 - Advisory Council recommendation on Averaging ANB (Requires Legislation)										
09	0.00	(150,000)	0	0	(150,000)	0.00	6,929,448	0	0	6,929,448
DP 8220 - Advisory Council rec.: Transportation & some HB124 (Requires Legislation)										
09	0.00	0	0	0	0	0.00	0	0	0	0
DP 8230 - Teacher (Requires Legislation)										
09	0.00	330,000	0	0	330,000	0.00	660,000	0	0	660,000
DP 8240 - Fund (Requires Legislation)										
09	0.00	(4,098,000)	4,098,000	0	0	0.00	(4,360,000)	4,360,000	0	0
DP 8250 - Reallocate (Requires Legislation)										
09	0.00	(1,000,000)	0	0	(1,000,000)	0.00	(900,000)	0	0	(900,000)
DP 8270 - Retire (Requires Legislation)										
09	0.00	(4,275,000)	0	0	(4,275,000)	0.00	(3,555,000)	0	0	(3,555,000)
DP 8280 - School (Requires Legislation)										
09	0.00	820,283	0	0	820,283	0.00	5,163,354	0	0	5,163,354
DP 8290 - Adjust HB 124 block grants (Requires Legislation)										
09	0.00	(175,099)	0	0	(175,099)	0.00	(545,309)	0	0	(545,309)
Total	7.30	(\$8,696,434)	\$4,098,000	\$11,325,785	\$6,727,351	7.30	\$3,248,645	\$4,360,000	\$11,430,116	\$19,038,761

Elected Officials New Proposal

As an elected official, The Superintendent of the Office of Public Instruction is authorized in statute to bring new proposals to the legislature, even though the new proposals were not included in the executive budget. The following new proposals were presented to the executive but were not approved.

- o Indian Education for All - This proposal adds \$60,000 per year to OPI administration costs for:
 - o Development of model curriculum guides incorporating American Indian content into, and aligned with, all content and performance standards (similar to the Indian Law Related Education.)
 - o Creation of a Native American Studies (NAS) curriculum council made up of local district Indian Education Directors (or their designees) and Tribal Education Directors (or their designees).
 - o Printing, publishing, postage and mailing costs for publications and model curriculum to all schools

- National Board Certification - This proposal is for the payment of stipends in the amount of \$3,000/teacher to teachers who achieve certification from the National Board for Professional Teaching Standards. OPI estimates that 15 teachers will be eligible for the stipend in fiscal 2004 and 25 teachers in fiscal 2005.

The 2001 Legislature approved HB 42, which provides for the payment of one-time stipends to teachers who achieve certification from the National Board for Professional Teaching Standards. Stipends in the amount of \$3,000 per teacher were paid to eight teachers in fiscal 2002. OPI expects to pay stipends to 3 teachers in fiscal 2003.

The fiscal 2002 present law base includes \$24,000 for the payment of stipends. This proposal requests to increase the stipends by \$21,000 in fiscal 2004 and by \$51,000 in fiscal 2005. Under this proposal, the total amount paid out in stipends would be \$45,000 in fiscal 2004 and \$75,000 in fiscal 2005.

- K-12 School Funding - This proposal requests \$91.1 million to implement the following proposals:
 - Increase basic and per-ANB entitlements by the projected change in Employment Cost Index for compensation, 3.7 percent for fiscal 2004 and 3.2 percent for fiscal 2005. State costs would increase by \$30.7 million for the biennium.
 - Allow school districts to fund the cost of employee health insurance in excess of \$300/month/employee through the county retirement levy. The amount charged to the county fund could not exceed the annual health insurance benefit provided for state employees less \$3600. The increase in state costs is estimated to be \$9.8 million for the biennium.
 - Allow schools with declining enrollment to calculate ANB using an enrollment average for the 3 previous school years. For schools with growing enrollment, the ANB would be calculated using the previous year's enrollment count. This proposal is estimated to cost the state \$25.0 million for the biennium.
 - Establish a loan repayment program for teachers who are teaching in "critical teacher shortage areas." These shortage areas would be defined both in terms of academic subject areas and geographic areas. The maximum student loan repayment assistance that an individual could receive would be \$12,000. State costs would increase by \$1.1 million for the biennium.
 - Raise the benefit calculation from 1.67 percent to 2 percent for employees who retire after June 30, 2005 with 30 years or more of service. The cost to the state of this proposal is \$330,000 for the biennium.
 - Provide a payment of \$1,000 per certified FTE to each school district. In fiscal 2001, school districts reported 12,097 FTE certified staff. The cost to the state is \$24.2 million in the biennium.
- Special Education - This proposal increases state support of special education by \$5.3 million over the 2005 biennium.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	114.91	3.10	7.30	125.31	3.10	7.30	125.31	125.31
Personal Services	5,345,610	513,585	119,007	5,978,202	514,649	113,343	5,973,602	11,951,804
Operating Expenses	5,363,314	866,308	4,660,104	10,889,726	941,162	4,689,869	10,994,345	21,884,071
Equipment	38,651	0	0	38,651	0	0	38,651	77,302
Local Assistance	19,301	0	0	19,301	0	0	19,301	38,602
Grants	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$10,766,876	\$1,379,893	\$4,779,111	\$16,925,880	\$1,455,811	\$4,803,212	\$17,025,899	\$33,951,779
General Fund	4,374,491	266,896	(148,618)	4,492,769	272,120	(143,848)	4,502,763	8,995,532
State/Other Special	185,369	8,196	0	193,565	9,004	0	194,373	387,938
Federal Special	6,116,225	1,195,592	4,927,729	12,239,546	1,265,478	4,947,060	12,328,763	24,568,309
Proprietary	90,791	(90,791)	0	0	(90,791)	0	0	0
Total Funds	\$10,766,876	\$1,379,893	\$4,779,111	\$16,925,880	\$1,455,811	\$4,803,212	\$17,025,899	\$33,951,779

Program Description

The State Level Activities – OPI Administration Program provides leadership and coordination of services to a variety of school and public groups; staff provides assistance to the Superintendent of Public Instruction in performing the duties prescribed. The program:

- Supports the Superintendent's statutory role with the Board of Public Education, Board of Regents, and Land Board;
- Is responsible for the distribution and accounting of state and federal funds provided to school districts;
- Provides operational support to OPI; and
- Provides assistance and information to school districts.

The program also administers all federal grants received by OPI, including the budgets for:

- Curriculum assistance;
- Special education;
- ESEA, Title I, II, III, IV, and VI administration, and
- Other educational services including drivers' education, school food services, and audiology.

Program Narrative

OPI Administration Major Budget Highlights	
○ OPI's Administration budget increases by \$12.4 million during the 2005 biennium compared with fiscal 2002. \$12.3 million is federal funds for testing, and implementation of the "No Child Left Behind" Act. ○ The executive recommends the removal of 3 FTE from general fund support and places the positions under federal support ○ The executive recommends increases 7.3 FTE in the department funded by federal funds ○ The administration budget reduces general fund support by \$808,966 for the 2005 biennium. However, statewide adjustments increase spending authority. The net result is that spending is that general fund spending is \$246,550 higher in the 2005 biennium than in fiscal 2002.	
Major LFD Issues	
○ The executive has not been able to say what services will be lost as a result of three FTE no longer funded by general fund ○ The executive has not specified how the reductions in general fund support will be applied.	

Funding

The Administration program is funded with a combination of general fund, state special revenue, federal funds and proprietary funds. The following table shows the funding sources in the Administration program.

Program Funding Table State Level Activities						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 4,374,491	40.6%	\$ 4,492,769	26.5%	\$ 4,502,763	26.4%
02001 School Lunch Program	78,367	0.7%	84,833	0.5%	85,480	0.5%
02402 Traffic & Safety Education	107,002	1.0%	108,732	0.6%	108,893	0.6%
03002 Public Instruction	6,116,225	56.8%	12,239,546	72.3%	12,328,763	72.4%
06067 Advanced Drivers Education	90,791	0.8%	-	-	-	-
Grand Total	\$ 10,766,876	100.0%	\$ 16,925,880	100.0%	\$ 17,025,899	100.0%

The following table shows the various functions of the program, as well as the funding sources proposed to be utilized in the 2005 biennium.

Figure 3
OPI Agency Funding By Function
2005 Biennium Executive Budget

Function	Fiscal 2004				Fiscal 2005			
	General Fund	State Special	Federal Special	Total	General Fund	State Special	Federal Special	Total
Superintendent	\$ 497,707	\$ -	\$ -	\$ 497,707	\$ 490,657	\$ -	\$ -	\$ 490,657
Legal Services	412,517	-	316,678	729,195	403,260	-	318,040	721,300
Fed Administration	-	-	21,832	21,832	-	-	21,835	21,835
Information Technology	859,231	-	36,304	895,535	863,271	-	36,304	899,575
Distribution to Schools	699,077	-	-	699,077	699,018	-	-	699,018
Curriculum Services	580,605	-	3,930,572	4,511,177	591,899	-	3,930,720	4,522,619
Accreditation	274,650	-	683,970	958,620	274,203	-	685,067	959,270
Health Enhancement & Safety	77,840	193,565	1,898,356	2,169,761	78,280	194,373	1,901,256	2,173,909
Educational Opportunity & Equity	237,850	-	2,406,546	2,644,396	238,198	-	2,425,049	2,663,247
Special Education	530,812	-	2,302,529	2,833,341	541,223	-	2,367,546	2,908,769
Career Technical & Adult Education	322,480	-	642,759	965,239	322,754	-	642,946	965,700
Advanced Drivers Education	-	-	-	-	-	-	-	-
Total	\$ 4,492,769	\$ 193,565	\$ 12,239,546	\$ 16,925,880	\$ 4,502,763	\$ 194,373	\$ 12,328,763	\$ 17,025,899

Present Law Adjustments

Present Law Adjustments	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					824,186					825,712
Vacancy Savings					(242,856)					(242,930)
Inflation/Deflation					(2,223)					153
Fixed Costs					17,289					22,689
Total Statewide Present Law Adjustments					\$596,396					\$605,624
DP 30 - Federal Grant Award adjustments										
	4.35	0	0	1,004,044	1,004,044	4.35	0	0	1,068,393	1,068,393
DP 45 - Advanced Driver Ed Enterprise - Removal from HB2										
	(1.25)	0	0	0	(111,655)*	(1.25)	0	0	0	(111,655)*
DP 7000 - General adjustments, including special session										
	0.00	(134,233)	1,040	24,301	(108,892)	0.00	(132,706)	1,142	25,013	(106,551)
Total Other Present Law Adjustments										
	3.10	(\$134,233)	\$1,040	\$1,028,345	\$783,497 *	3.10	(\$132,706)	\$1,142	\$1,093,406	\$850,187 *
Grand Total All Present Law Adjustments					\$1,379,893 *					\$1,455,811

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 30 - Federal Grant Award adjustments - This is an adjustment in federal spending authority for grant awards currently administered by the Office of Public Instruction. The adjustments in federal grant awards are due to normal increases in federal funding and also the "No Child Left Behind Act of 2001" (NCLB) that reauthorized the Elementary and Secondary Education Act of 1965 (ESEA). NCLB is an act to close the achievement gap with accountability, flexibility and choice. ESEA provides targeted resources to help ensure that disadvantaged students have access to a quality public education.

This proposal also includes funding increases to programs separate from the Act. These funds are used in support of the administration and technical assistance of current federal grants. This is a biennial appropriation.

**LFD
COMMENT**

The following figure shows present law changes in federal grant administration expected for fiscal 2004 and 2005.

Figure 4 Present Law Changes in Federal Grant Administration 2005 Biennium		
Grant	Fiscal 2004	Fiscal 2005
<u>Programs Increased</u>		
Adult Basic & Literacy Ed	\$ 3,550	\$ 3,550
Carl Perkins	13,029	13,029
Title I, Even Start	150	150
Title I, Migrant Education	50,000	50,000
Title I, Comp School Reform	6,194	6,194
Title II, Teacher & Principal Training	524,179	524,179
Title II, Enhancing Ed Technology	153,922	153,922
Title V, Innovative Programs	286,729	286,729
IDEA Part B	343,770	408,119
Language Acquisition	175,000	175,000
School Food	273,500	273,500
Veterans Education	25,339	25,339
Total	<u>\$ 1,855,362</u>	<u>\$ 1,919,711</u>
<u>Programs Eliminated or Reduced</u>		
Bilingual Support Services	\$ (96,729)	\$ (96,729)
Title II- Eisenhower Prof Development	(139,966)	(139,966)
Title III-Tech Literacy Challenge	(93,955)	(93,955)
Title VI - Innovative Programs	(286,729)	(286,729)
IDEA Transition	(155,083)	(155,083)
Immigrant Education	(117)	(117)
School to Work	(78,739)	(78,739)
Total	<u>\$ (851,315)</u>	<u>\$ (851,315)</u>
Net Increase - All Programs	<u>\$ 1,004,047</u>	<u>\$ 1,068,396</u>

DP 45 - Advanced Driver Ed Enterprise - Removal from HB2 - The Advanced Driver Education program was changed to an enterprise program for the 2003 biennium. This request removes the authority from HB 2 and moves the authority into a non-HB 2 proprietary fund.

DP 7000 - General adjustments, including special session - Includes: contract rate increases for audiology, adjustment for publication of the school law book, indirect cost adjustments, and special session reductions

Contract rate increases include:

Following each legislative session, the Office of Public Instruction contracts with the Legislative Services Division (LSD) for the printing of an updated volume of School Laws of Montana. This request will fund an anticipated increase in LSD's rates and an increase in postage costs. The request also includes funding to print an additional 500 copies of the School Law book. Section 20-3-105 requires OPI to sell the School Law book at the cost of printing and shipping, so the cost of this proposal will be recovered through an increase in the price charged for each volume sold. Revenue from the sale of School Law books is deposited in the general fund.

Audiology: Under the Individuals With Disabilities Education Act (IDEA) schools are required to have an effective child find system in place for individuals with disabilities from birth through twenty-one. The Hearing Conservation Program is the primary method in which public schools ensure proper identification of students who may have a hearing impairment.

Current contracts for the audiological program total \$344,862. The RFP, under which the Office of Public Instruction is now contracted, anticipated approximately a 3 percent increase per year, totaling \$10,346 in fiscal 2004 and \$21,003 in fiscal 2005. In addition, OPI is requesting \$22,000 per year for equipment replacement. Therefore, the total of the present law adjustment is \$32,346 for fiscal 2004 and \$65,003 for fiscal 2005.

Special session includes: Office supplies - \$4,104; 2/3 of equipment - \$25,067; and pay plan reduction - \$37,510. The Governor's reduction was incorporated into the special session version of HB 2 and also included a 3.5 percent reduction to this program.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 13 - Statewide Student Assessment										
06	0.00	253,250	0	0	253,250	0.00	263,250	0	0	263,250
DP 33 - Federal Assessment Requirement										
06	5.00	0	0	3,700,000	3,700,000	5.00	0	0	3,700,000	3,700,000
DP 34 - National Assessment of Educational Progress										
06	1.00	0	0	75,000	75,000	1.00	0	0	78,000	78,000
DP 35 - Advanced Placement Incentive										
06	0.50	0	0	50,154	50,154	0.50	0	0	50,123	50,123
DP 36 - Character Education										
06	1.30	0	0	75,000	75,000	1.30	0	0	75,000	75,000
DP 39 - Reading First										
06	1.50	0	0	610,000	610,000	1.50	0	0	625,000	625,000
DP 40 - REI / Rural Low Income Schools										
06	0.00	0	0	24,108	24,108	0.00	0	0	24,108	24,108
DP 43 - Title IV 21st Century Community Learning Centers										
06	1.00	0	0	140,000	140,000	1.00	0	0	140,000	140,000
DP 44 - Troops to Teachers										
06	0.00	0	0	253,467	253,467	0.00	0	0	254,829	254,829
DP 7020 - Reduction to balance the budget										
06	(3.00)	(401,868)	0	0	(401,868)	(3.00)	(407,098)	0	0	(407,098)
Total	7.30	(\$148,618)	\$0	\$4,927,729	\$4,779,111	7.30	(\$143,848)	\$0	\$4,947,060	\$4,803,212

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 13 - Statewide Student Assessment - This request is to fund a contract with a national testing service for the annual assessment of students in grades 4, 8, and 11 as required by the Board of Public Education (BPE) and the Elementary and Secondary Education Act of 1994. The estimated cost of continuing the testing service reflects the estimates provided by the contractor, Riverside Publishing Company. Funding the proposal would allow timely public access to education data,

as well as provide national comparison data on the academic achievement of students in the core academic areas.

DP 33 - Federal Assessment Requirement - Section 1111(b) of the Elementary and Secondary Education Act (ESEA) as reauthorized by the "No Child Left Behind Act of 2001" requires states to develop and implement a single statewide accountability system that is:

- o Based on academic standards, and
- o Administered to all public elementary and secondary school students.

This proposal creates and implements this test with federal revenue.

As required in a compliance agreement between the Montana Office of Public Instruction and the U.S. Department of Education and as required by the ESEA, a contract for an assessment instrument was signed with a vendor (after the Request for Proposal process) to provide testing of all Montana public school students in:

- o Reading and mathematics in grades 4, 8, and 11 in school years 2003-2004 and 2004-2005; and
- o Reading and mathematics in grades 3, 4, 5, 6, 7, 8, and 11 in 2005-2006 and beyond.

The cost of the contract for fiscal 2004 is \$2,499,850 and for fiscal 2005 is \$2,363,123. In addition, 5.00 FTE will administer the contract and will coordinate administration of the federally required assessment system, provide results to districts and the federal government, assure technical requirements are met, and assist educators in the use of assessment results to improve instruction. Funding will also provide for membership in a consortium of rural, western states to facilitate collaboration between states and to help eliminate duplication of effort. Additionally, funding may be used to help provide a federally required test of English Language Proficiency for limited English proficiency students.

DP 34 - National Assessment of Educational Progress - Federal funding is provided to hire a National Assessment of Educational Progress (NAEP) State Administrator at OPI to assist with the implementation of NAEP in Montana. NAEP reading and mathematics assessments will be administered biannually to 4th and 8th grade students beginning in 2003. NAEP assessments in additional subjects at grades 4, 8, and 11 will also be conducted following appropriation of funds by the U.S. Congress. The NAEP State Administrator will coordinate the administration of NAEP within Montana; promote understanding of NAEP and its relevance to the state assessment program; coordinate the analysis and interpretation of NAEP data; and coordinate communication of NAEP information to school administrators, teachers, parents and the general public.

DP 35 - Advanced Placement Incentive - OPI has applied to participate in the federally funded Advanced Placement Incentive Program to reimburse a major portion of the cost, for low-income students, of taking advanced placement tests. In addition, the OPI is forming a consortium with the Office of the Commissioner of Higher Education to build a permanent system of support and services to enable low-income students to adequately prepare for challenging coursework in the higher grades and to enter and succeed in college.

DP 36 - Character Education - The goals of this federal grant are to create school and community environments that support the development and demonstration of character in youth; enhance student academic performance and interpersonal and civic skills; and design and implement an effective character education model program that will meet the unique needs of a rural, sparsely populated state, which can be duplicated in both rural and urban areas nationally.

DP 39 - Reading First - This new federal program replaces the Reading Excellence Act and helps states and local educational agencies utilize scientifically based reading research to implement comprehensive reading instruction for children in kindergarten through third grade.

The new program requires schools that receive grants to select and administer screening, diagnostic, and classroom-based instructional reading assessments to determine which students in kindergarten through grade 3 are at risk of reading failure. The program also requires provision of professional development for involved teachers in the essential components of reading instruction.

DP 40 - REI / Rural Low Income Schools - OPI requests authority to coordinate and implement the provisions of the Rural Education Initiative's (REI) Rural Low Income Schools program (which is subpart 2 of the new federal ESEA law). This program provides funding to eligible school districts for teacher recruitment and retention, professional development, educational technology, parental involvement activities, safe and drug-free schools activities, language instruction activities and/or basic programs for improving the academic achievement of disadvantaged students.

The Rural Low Income (RLI) program provides new federal funds to school districts that are: (1) not eligible to participate in the REI program for small, rural schools (subpart 1 of the new federal ESEA law), (2) serve only schools with a school locale code of 6, 7 or 8 which designates the districts rural location, and (3) have a child poverty rate of at least 20 percent (i.e., at least 20 percent of the children aged 5-17 that are served by the district are from families with incomes below the poverty rate). Federal law provides for limited administrative funds (5 percent of the total state award) to coordinate and implement the RLI program.

DP 43 - Title IV 21st Century Community Learning Centers - The Health Enhancement and Safety Division requests authority for an FTE and for administrative funds to coordinate and implement the 21st Century Community Learning Centers program. The program provides funding through a competitive grant process for local school districts, community based organizations and cooperative agreements between these groups to provide before-school, after-school, and summer school activities for school age children. Priority is given to schools with a high concentration of poor students and those schools determined to be in need of improvement. Activities must provide academic enrichment that complement regular school-based academic programs and provide literacy support to the families of students. The HES Division will implement the program and will arrange technical assistance and training services to Montana schools and community-based organizations.

DP 44 - Troops to Teachers - OPI participates in the US Department of Defense and US Department of Education Troops-to-Teachers program. The program will assist 75 to 100 participants from Montana, Idaho, South Dakota, North Dakota, Wyoming and elsewhere to secure employment for the 2002-2003 school year.

The goal of the program is to recruit and assist military personnel in their pursuit of teaching as a second career, by identifying and facilitating the most appropriate route to certification and assisting participants to secure employment as public school teachers.

DP 7020 - Reduction to balance the budget - In order to balance the overall state budget the general fund available for OPI operations was reduced. Current level expenditures must be reduced by an additional \$808,962 for the 2005 biennium. OPI will accomplish this reduction through a variety of means, including elimination of three management or other relatively high paid positions, reducing the general fund budget for Carl Perkins match, eliminating the contract for grading GED exams and, as much as legally possible, switching the funding source for certain positions.

Three management positions will be eliminated for a savings of \$189,449 in fiscal 2004 and \$188,885 in fiscal 2005.

Operating expenditures in the Career Technical and Adult Education Division will be reduced to the minimum amount necessary to meet the federal match requirement for Carl Perkins funds, an annual reduction of \$19,480.

A contract for the grading of GED exams will be eliminated, saving \$9,820 each year.

The balance of the required biennial budget reduction (\$318,607) will be accomplished by, as much as legally possible, switching positions that are currently funded from the general fund to other funding sources. The positions that can be switched, and the other possible funding sources for those positions, will be determined at a later time.

As a result of the above reductions, indirect costs paid from the general fund will also be reduced by \$63,841 in fiscal 2004 and \$64,600 in fiscal 2005.

LFD
ISSUE

OPI is not able to explain how the services performed by the three general fund positions will be reduced.

Language Recommendations

The Executive Budget recommends the following language be included in HB 2:

"The office of public instruction may distribute funds from the appropriation in item (in-state treatment) to public school districts for the purpose of providing educational costs of children with significant behavioral or physical needs."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	128,250	106,760	0	235,010	106,760	0	235,010	470,020
Local Assistance	556,671,249	(43,162,127)	(4,449,816)	509,059,306	(50,348,822)	7,752,493	514,074,920	1,023,134,226
Grants	88,069,720	16,874,513	6,398,056	111,342,289	21,345,429	6,483,056	115,898,205	227,240,494
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$644,869,219	(\$26,180,854)	\$1,948,240	\$620,636,605	(\$28,896,633)	\$14,235,549	\$630,208,135	\$1,250,844,740
General Fund	556,180,287	(42,996,165)	(8,547,816)	504,636,306	(50,182,860)	3,392,493	509,389,920	1,014,026,226
State/Other Special	906,750	(156,750)	4,098,000	4,848,000	(156,750)	4,360,000	5,110,000	9,958,000
Federal Special	87,782,182	16,972,061	6,398,056	111,152,299	21,442,977	6,483,056	115,708,215	226,860,514
Total Funds	\$644,869,219	(\$26,180,854)	\$1,948,240	\$620,636,605	(\$28,896,633)	\$14,235,549	\$630,208,135	\$1,250,844,740

Program Description

The Local Education Activities program is used by OPI to distribute various state and federal funds to local education agencies.

Program Narrative

Local Education Activities - Distribution to Schools Program Major Budget Highlights
○ OPI's budget for distribution to schools increases by \$51.3 million during the 2005 biennium, virtually all of which is federal funds. The executive proposes:" ○ To increase the amount distributed to schools from state sources by only \$152 during the 2005 biennium compared with fiscal 2002. ○ To increase state support by increasing entitlements, school facility reimbursements, transportation and 3-year averaging of enrollments. ○ To reduce state support by reducing direct state aid, HB 124 block grants, teachers' retirement contributions and technology purchases. ○ To utilize more state special funds rather than the general fund to pay for school costs. ○ To spend increases in federal funds of \$23.4 million in fiscal 2004 and \$27.9 million in fiscal 2005 primarily on teacher and principal training, special education, and several new programs associated with the "No Child Left Behind" act. ○ The executive recommends legislation for the following: ○ Average ANB for calculating district general fund budgets in fiscal 2005 ○ Increase Basic and per-ANB entitlements, and reduce the direct state aid percentage ○ Partially eliminate district transportation HB 124 block grants and use to fund increases in state transportation aid ○ Eliminate school facility HB 124 block grants and use to fund increases in the school facility entitlements ○ Use Treasure State Endowment Program monies to increase funding for the school facility reimbursement program ○ Institute a teacher loan repayment program ○ Reallocate timber revenue to pay for Base Aid ○ Require district funds other than the general fund to pay for their own retirement costs ○ Eliminate growth in all remaining district and county HB 124 block grants. ○ See the decision package table below for a summary of the financial impacts of the executive's proposals with respect to distribution to schools.
Major LFD Issues
○ The executive proposal increases school funding complexity by utilizing state accounts other than the general fund to distribute money to schools. ○ The executive proposal decreases Base aid below fiscal 2002 levels and increases state support for non-classroom expenditures. ○ The executive's proposal regarding the redistribution of HB 124 block grant monies, as well as its retirement proposal, will result in large shifts in property taxes between districts and counties, although the impact on property taxes statewide is small. ○ The executive's proposal to require funds other than the district general fund to pay the retirement costs associated with each fund's own salaries, may result in service reductions and /or tax increases for other district funds ○ The executive's retirement proposal may violate the federal prohibition on the use of federal funds to supplant local funds ○ The executive's proposal on averaging ANB in fiscal 2005 will increase present law costs in the 2007 biennium. ○ The executive proposal does not account for the impact of the fiscal 2004 statewide reappraisal of property values on state guaranteed tax base costs.

The following table shows the impact of the governor's proposal on state funds in the 2005 biennium. Each proposal is cross-referenced by the decision package number. The numbers for total state impact at the bottom of the table do not tie with the program funding tables because this table includes the guarantee fund. Each of the new proposals require legislation.

Figure 5				
Executive Proposals for K-12 Distribution to Schools - 2005 Biennium				
BY Fund and Decision Package Number				
Present Law Adjustments		Fiscal 2004	Fiscal 2005	Biennium
General Fund				
Base Aid Changes				
DP1	Reduction due to fewer ANB	\$ (3,227,200)	\$ (11,865,251)	\$ (15,092,451)
DP1	Increase in Retirement GTB	3,801,623	4,383,325	8,184,948
DP49	Switch to Guarantee Account	(44,273,000)	(44,017,000)	(88,290,000)
Total Base Aid Changes		\$(43,698,577)	\$ (51,498,926)	\$ (95,197,503)
DP2	Transportation	\$ 81,031	\$ 81,031	162,062
DP3	Special Education	1,008,584	1,008,584	2,017,168
DP5	School Facility	33,817	143,817	177,634
DP8&10	Other Biennial	384,126	388,426	772,552
DP51	HB 124 District block grants	(280,052)	126,504	(153,548)
DP51	HB 124 Countywide Block Grants	(525,094)	(432,296)	(957,390)
Total General fund		\$(42,996,165)	\$ (50,182,860)	\$ (93,179,025)
DP49	Guarantee Account - Pay for Base Aid with Common School Trust I&I	\$ 44,273,000	\$ 45,017,000	\$ 89,290,000
DP49	State Special Account - Remove Timber for Technology	\$ (156,750)	\$ (156,750)	\$ (313,500)
Present Law - All State Accounts		\$ 1,120,085	\$ (5,322,610)	\$ (4,202,525)
New Proposals		Fiscal 2004	Fiscal 2005	Biennium
General Fund				
Base Aid Changes				
DP8210	3-yr Averaging	\$ -	\$ 7,079,448	\$ 7,079,448
DP8210	Redefine ANB - less than one class not counted	(150,000)	(150,000)	(300,000)
DP8280	Increase entitlements 2%, then 1%	8,826,666	13,271,173	22,097,839
DP8280	Reduce DSA to 42.6% from 44.7%	(8,006,383)	(8,107,820)	(16,114,203)
DP8250	Pay for Base aid from timber in guarantee account	(1,000,000)	(900,000)	(1,900,000)
DP8270	Reduce Payments From District General Fund to County Retirement	(4,275,000)	(3,555,000)	(7,830,000)
Total Base Aid Changes		\$ (4,604,717)	\$ 7,637,801	\$ 3,033,084
School Facility				
DP8220	Use school facility HB 124 Block Grants to fund School Facility Reimb	\$ 3,990,408	\$ 3,990,408	\$ 7,980,816
DP8240	Fund switch - use TSEP state special funds for school facilities	(4,098,000)	(4,360,000)	(8,458,000)
Total School Facility		\$ (107,592)	\$ (369,592)	\$ (477,184)
Transportation				
DP8220	Use Transportation HB 124 Block Grants to fund Transport New Proposal	\$ 1,746,661	\$ 1,746,661	\$ 3,493,321
HB124 Block Grants				
DP8290	Postpone Growth in District and County Block Grants- Two Years	\$ (175,099)	\$ (545,309)	\$ (720,408)
DP8220	Eliminate One-half Transportation HB 124 Block Grants	(1,746,661)	(1,746,661)	(3,493,321)
DP8220	Eliminate School Facility HB 124 Block Grants	(3,990,408)	(3,990,408)	(7,980,816)
Total HB 124 Block Grants		\$ (5,912,168)	\$ (6,282,378)	\$ (12,194,545)
DP8230	Teacher Loan Repayment Program	\$ 330,000	\$ 660,000	\$ 990,000
Total General Fund		\$ (8,547,816)	\$ 3,392,493	\$ (5,155,323)
DP8250	Guarantee Fund - BASE Aid Payment from Timber Revenue	\$ 1,000,000	\$ (100,000)	\$ 900,000
DP8240	State Special - Use TSEP Money in new school facility account	\$ 4,098,000	\$ 4,360,000	\$ 8,458,000
Total New Proposals - All State Accounts		\$ (3,449,816)	\$ 7,652,493	\$ 4,202,677
Total Present Law and New Proposals - All State Accounts		\$ (2,329,731)	\$ 2,329,883	\$ 152

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor. The table also provides a broad overview of funding for the distribution to the public schools program.

Program Funding Table Local Education Activities						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 510,539,670	79.2%	\$ 504,636,306	81.3%	\$ 509,389,920	80.8%
01101 General Fund Guarantee Account	45,640,617	7.1%	-	-	-	-
02018 Guarantee Fund	156,750	0.0%	-	-	-	-
02402 Traffic & Safety Education	750,000	0.1%	750,000	0.1%	750,000	0.1%
02791 School Facility Ssr	-	-	4,098,000	0.7%	4,360,000	0.7%
03170 Grant Clearance Discretionary	<u>87,782,182</u>	<u>13.6%</u>	<u>111,152,299</u>	<u>17.9%</u>	<u>115,708,215</u>	<u>18.4%</u>
Grand Total	<u>\$ 644,869,219</u>	<u>100.0%</u>	<u>\$ 620,636,605</u>	<u>100.0%</u>	<u>\$ 630,208,135</u>	<u>100.0%</u>

The following table provides a complete listing of appropriations by fund type included in the Local Education Activities - Distribution to Schools - Program. This table, unlike the program table includes the spending from the guarantee fund.

Figure 6

Distribution to Schools, General Fund, State Special, and Federal Funds

Description	Base Budget 2002	PL Base Adjustments Fiscal 2004	New Proposals Fiscal 2004	Total Fiscal 2004	PL Base Adjustments Fiscal 2005	New Proposals Fiscal 2005	Total Fiscal 2005
General Fund							
Direct State Aid	\$ 322,166,465	\$ (47,054,856)	\$ (9,890,977)	\$ 265,220,632	\$ (52,042,041)	\$ (1,485,323)	\$ 268,639,101
GTB - School General Fund	97,988,462	(445,344)	9,693,016	107,236,134	(3,840,210)	12,939,023	107,087,275
GTB - School Retirement	18,553,969	3,801,623	(4,275,000)	18,080,592	4,383,325	(3,555,000)	19,382,294
School Facility Reimbursement	4,216,183	33,817	(107,592)	4,142,408	143,817	(369,592)	3,990,408
Special Education	33,904,056	1,008,584	-	34,912,640	1,008,584	-	34,912,640
Transportation	10,318,969	81,031	1,746,661	12,146,661	81,031	1,746,661	12,146,661
Instate Treatment	604,272	370,624	-	974,896	370,624	-	974,896
Secondary Vo Ed	714,910	90	-	715,000	90	-	715,000
Adult Basic Ed	275,000	-	-	275,000	-	-	275,000
Gifted & Talented	140,788	9,212	-	150,000	9,212	-	150,000
School Food	648,653	-	-	648,653	-	-	648,653
Timber Harvest	-	-	-	-	-	-	-
Other	139,275	4,200	-	143,475	8,500	-	147,775
Teacher Loan Repayment	-	-	330,000	330,000	-	660,000	660,000
Other District HB 124 Block Grants	46,290,560	(280,052)	(403,490)	45,607,018	126,504	(810,046)	45,607,018
School Facility Block Grants	3,990,408	-	(3,990,408)	-	-	(3,990,408)	-
District Transportation Block Grants	3,493,321	-	(1,746,661)	1,746,661	-	(1,746,661)	1,746,661
County HB124 Block Grants	12,734,996	(525,094)	96,635	12,306,537	(432,296)	3,839	12,306,539
Total General Fund	\$ 556,180,287	\$ (42,996,165)	\$ (8,547,816)	\$ 504,636,306	\$ (50,182,860)	\$ 3,392,493	\$ 509,389,920
State Special Revenue							
Timber Harvest for Technology	\$ 156,750	\$ (156,750)	\$ -	\$ -	\$ (156,750)	\$ -	\$ -
Traffic Safety Distribution	750,000	-	-	750,000	-	-	750,000
School Facility TSEP Switch	-	-	4,098,000	4,098,000	-	4,360,000	4,360,000
Flex Account	-	-	-	-	-	-	-
Total State Special	\$ 906,750	\$ (156,750)	\$ 4,098,000	\$ 4,848,000	\$ (156,750)	\$ 4,360,000	\$ 5,110,000
Statutory Appropriations							
Guarantee Account - Interest & Income	\$ -	\$ 44,273,000	\$ -	\$ 44,273,000	\$ 44,017,000	\$ -	\$ 44,017,000
Guarantee Account -Timber	-	-	1,000,000	1,000,000	1,000,000	(100,000)	900,000
Total Statutory	\$ -	\$ 44,273,000	\$ 1,000,000	\$ 45,273,000	\$ 45,017,000	\$ (100,000)	\$ 44,917,000
Federal Special Revenue							
Federal School Foods Programs	\$ 18,486,009	\$ -	\$ -	\$ 18,486,009	\$ -	\$ -	\$ 18,486,009
ESEA - Title I	28,764,748	5,710,000	-	34,474,748	5,710,000	-	34,474,748
ESEA Title II - Teacher & Principal Training	1,550,970	14,509,064	-	16,060,034	14,509,064	-	16,060,034
ESEA Title III-Tech Literacy Challenge	1,272,819	(1,137,580)	-	135,239	(1,137,580)	-	135,239
ESEA Title IV Drug Free Schools	1,523,416	150,000	-	1,673,416	150,000	-	1,673,416
ESEA Title V & VI - Innovative Ed	1,674,190	250,000	-	1,924,190	250,000	-	1,924,190
ESEA Title VII - Immigrant Ed	26,701	(17,606)	-	9,095	(17,606)	-	9,095
IDEA	17,168,458	6,999,855	-	24,168,313	11,470,771	-	28,639,229
Adult Basic Education	1,267,724	140,000	-	1,407,724	140,000	-	1,407,724
Carl Perkins	2,903,237	190,000	-	3,093,237	190,000	-	3,093,237
School to Work	2,036,748	(2,036,748)	-	-	(2,036,748)	-	-
Education of Homeless Children	53,703	50,000	-	103,703	50,000	-	103,703
Learn and Serve Montana	42,607	-	-	42,607	-	-	42,607
Reduced Class Size BL	7,536,684	(7,536,684)	-	-	(7,536,684)	-	-
Advanced Placement Fee Reimb	158,174	106,760	-	264,934	106,760	-	264,934
Emergency School Renovation	1,955,178	(850,000)	-	1,105,178	(850,000)	-	1,105,178
Comprehensive School Reform	821,024	20,000	-	841,024	20,000	-	841,024
Workplace Essentials	21,700	-	-	21,700	-	-	21,700
Reading Excellence	518,092	-	-	518,092	-	-	518,092
Language Acquisition	-	425,000	-	425,000	425,000	-	425,000
Community Service Grant Pgm	-	-	250,000	250,000	-	250,000	250,000
Reading First (replace read excellence)???	-	-	2,890,000	2,890,000	-	2,975,000	2,975,000
REI/Rural Low Income Schools	-	-	458,056	458,056	-	458,056	458,056
Title IV-21st Cent Comm Learn Ctrs	-	-	2,800,000	2,800,000	-	2,800,000	2,800,000
Total Federal Special	\$ 87,782,182	\$ 16,972,061	\$ 6,398,056	\$ 111,152,299	\$ 21,442,977	\$ 6,483,056	\$ 115,708,215
Funding							
Total General Fund	\$ 556,180,287	\$ (42,996,165)	\$ (8,547,816)	\$ 504,636,306	\$ (50,182,860)	\$ 3,392,493	\$ 509,389,920
Total Statutory	-	44,273,000	1,000,000	45,273,000	45,017,000	(100,000)	44,917,000
Total State Special	906,750	(156,750)	4,098,000	4,848,000	(156,750)	4,360,000	5,110,000
Total Federal Special	87,782,182	16,972,061	6,398,056	111,152,299	21,442,977	6,483,056	115,708,215
Total Distribution to Public Schools	\$ 644,869,219	\$ 18,092,146	\$ 2,948,240	\$ 665,909,605	\$ 16,120,367	\$ 14,135,549	\$ 675,125,135

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
DP 1 - Adjust K-12 Base Aid	0.00	574,423	0	0	574,423	0.00	(7,481,926)	0	0	(7,481,926)
DP 2 - Adjust State Transportation Aid	0.00	81,031	0	0	81,031	0.00	81,031	0	0	81,031
DP 3 - Special Ed. State Maintenance of Fiscal Effort	0.00	1,008,584	0	0	1,008,584	0.00	1,008,584	0	0	1,008,584
DP 5 - School Facility Reimbursement	0.00	33,817	0	0	33,817	0.00	143,817	0	0	143,817
DP 8 - School District Audit Filing Fee annual increase	0.00	4,200	0	0	4,200	0.00	8,500	0	0	8,500
DP 10 - Biennial Appropriations	0.00	379,926	0	0	379,926	0.00	379,926	0	0	379,926
DP 31 - Federal Grants - increase in current grants	0.00	0	0	16,972,061	16,972,061	0.00	0	0	21,442,977	21,442,977
DP 49 - Guarantee Account - Statutory Appropriations	0.00	(44,273,000)	(156,750)	0	(44,429,750)	0.00	(44,017,000)	(156,750)	0	(44,173,750)
DP 51 - School Block Grants established in HB124 and HB18	0.00	(805,146)	0	0	(805,146)	0.00	(305,792)	0	0	(305,792)
Total Other Present Law Adjustments	0.00	(\$42,996,165)	(\$156,750)	\$16,972,061	(\$26,180,854)	0.00	(\$50,182,860)	(\$156,750)	\$21,442,977	(\$28,896,633)
Grand Total All Present Law Adjustments					(\$26,180,854)					(\$28,896,633)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Adjust K-12 Base Aid - This present law adjustment reflects a projected \$6.9 million savings to the state general fund for K-12 BASE aid due to declining enrollment, increasing entitlements, and increasing retirement costs..

LFD COMMENT

Declining enrollments as measured by Average Number Belonging (ANB) lead to savings in direct state aid and Guaranteed Tax Base (GTB) aid for districts' general fund. As shown in the following figure, ANB will be 5,162 less in fiscal 2004 than in fiscal 2002, and will be 7,886 less in fiscal 2005 than in

fiscal 2002. Direct state aid and district general fund GTB, will decline by \$3.2 million in fiscal 2004 and by \$11.9 million in fiscal 2005 when compared with fiscal 2002. These declines would have been larger except for the increase in statutory entitlements in fiscal 2003, which under present law carry over to fiscal 2004 and 2005. The estimates of Base aid for fiscal 2004 and 2005 are based on the assumption that HB124 block grants to districts' general funds will grow by 0.8 percent in each year. Also property tax reimbursements associated with HB 20 and SB 417 are projected to decline at 10 percent per year, as set in statute.

Average Number Belonging (ANB) in Montana Schools

Fiscal Year	Elementary	Percent Change	High School	Percent Change	Total	Percent Change
Actual & Present Law						
A 1994	111,507		45,443		156,950	
A 1995 *	114,772	2.9%	47,818	5.2%	162,590	3.6%
A 1996	114,734	0.0%	49,045	2.6%	163,779	0.7%
A 1997	114,160	-0.5%	50,582	3.1%	164,742	0.6%
A 1998	112,449	-1.5%	51,432	1.7%	163,881	-0.5%
A 1999	109,852	-2.3%	51,885	0.9%	161,737	-1.3%
A 2000	107,724	-1.9%	52,022	0.3%	159,746	-1.2%
A 2001	106,014	-1.6%	51,524	-1.0%	157,538	-1.4%
A 2002	103,633	-2.2%	50,794	-1.4%	154,427	-2.0%
A 2003	101,139	-2.4%	50,366	-0.8%	151,505	-1.9%
E 2004	99,165	-2.0%	50,100	-0.5%	149,265	-1.5%
E 2005	97,264	-1.9%	49,277	-1.6%	146,541	-1.8%

* includes for the first time, students who spend more than 1/2 day in special education class
A = Actual; E = Estimated

Figure 7

**LFD
COMMENT
(continued)**

The estimates of Base aid for fiscal 2004 and 2005 are based on the assumption that HB124 block grants to districts' general funds will grow by 0.8 percent in each year. Also property tax reimbursements associated with HB 20 and SB 417 are projected to decline at 10 percent per year, as set in statute. These estimates do not take account of changes in each district's tax base due to reappraisal beginning in fiscal 2004. This information will not be available until after the 58th legislative session has convened. Retirement GTB costs are projected to increase above the level in fiscal 2002, by \$3.8 million in fiscal 2004 and by \$4.4 million in fiscal 2005. Retirement GTB was artificially low in fiscal 2002 due to high HB124 block grants. Retirement GTB in fiscal 2003 is expected to be \$21.75 million, a level nearer its long run trend. Estimates for fiscal 2004 and 2005 are based on an assumption of three percent growth in districts' retirement budgets.

DP 2 - Adjust State Transportation Aid - This present law adjustment establishes the fiscal 2004 and fiscal 2005 appropriations for state transportation aid payments at \$10.4 million, \$81,031 higher than the base year amount. State transportation payments are made based on a statutory formula based on bus miles and ridership. State payments to schools for the transportation of students have been growing slowly over the past several years, but have recently leveled out. Several things can cause a change in this state payment - changes in the number of busses, changes in the number of eligible riders, changes in the number of bus routes, changes in the number of individual contracts, and changes in the amount of district re-appropriations will all affect the amount of the payment. This is a biennial appropriation.

DP 3 - Special Ed. State Maintenance of Fiscal Effort - The base year expenditure is \$33,904,640. The state special education allocation in HB 2 in fiscal 2003 is \$34,912,640. Federal maintenance of effort requirements require that no reduction can be made in subsequent years. Appropriating a lesser amount than fiscal 2003 will result in a dollar for dollar reduction in federal funding for special education. This is a biennial appropriation.

DP 5 - School Facility Reimbursement - This present law adjustment is to establish the fiscal 2004 and fiscal 2005 appropriations for school facility payments at \$4.25 million each year, slightly less than the fiscal 2003 appropriated amount of \$4.45 million. School facility reimbursements are wealth-based payments to districts to help pay for debt service associated with bonds sold after July 1, 1991. This is a biennial appropriation.

**LFD
ISSUE**

The appropriation for school facility reimbursements was underspent in fiscal 2002 by \$134,000. The appropriation for fiscal 2003 was reduced by \$250,000 during the August 2002 special session, to \$4.45 million. According to OPI, the preliminary cost of school facility reimbursements in fiscal 2003 is expected to be \$4,084,559, and costs in fiscal 2004 are expected to be \$3,795,418, under the assumption that no new bond issues would be made. Predictions of new bond issues are difficult to make since they must be approved by voters and depend upon the level of interest rates. Low interest rates make it more likely a new bond issued would be passed. A bill passed during the 2001 legislative session, HB 457, makes it easier to fund debt service needs by allowing utilization of up to 25 percent of federal impact aid funds, which may substitute for local effort. One school has already taken advantage of this. If a large school such as Browning uses this procedure, the amount available for school facility reimbursements for other schools would be reduced.

DP 8 - School District Audit Filing Fee - - This increase will allow OPI to pay school district audit filing fees in accordance with the Department of Administration's fee schedule, which is based on the amount of school district revenues. Payment of this fee from OPI to the Department of Administration is required by Section 2-7-514(2), MCA. This increase assumes school district revenues will increase three percent each year. Base year expenditures are \$139,275. This is a biennial appropriation.

DP 10 - Biennial Appropriations - This present law adjustment establishes biennial appropriations in each year at half of the amount appropriated for the 2003 biennium. The biennial appropriations include instate treatment (\$974,897 per year), Secondary Vo-ed (\$715,000 per year), Adult Basic Ed (\$275,000 per year), Gifted and Talented (\$150,000 per

year) and School Foods (\$648,653 per year). These programs have either federal maintenance of effort requirements, or federal matching requirements. The biennial appropriations have been at these levels for many years.

DP 31 - Federal Grants - Increase in Current Grants - The adjustments in current federal grant awards are due in part to the "No Child Left Behind Act of 2001" (NCLB) that reauthorized the Elementary and Secondary Education Act of 1965 (ESEA). NCLB is an act to close the achievement gap with accountability, flexibility and choice, so that no child is left behind. ESEA provides targeted resources to help ensure that disadvantaged students have access to a quality public education. This proposal also includes funding increases to programs separate from the Act. These funds will be distributed to the school districts. This is a biennial appropriation.

**LFD
COMMENT**

The figure below shows those federal grants that have increased or are new and those that have been eliminated or reduced.

Figure 8 Federal Grant Awards Present Law Adjustments			
Programs Increased	Base 2002	Increase / Decrease	
		Fiscal 2004	Fiscal 2005
ESEA - Title I	\$ 28,764,748	\$ 5,710,000	\$ 5,710,000
ESEA Title II - Teacher & Principal Training	-	16,152,508	16,152,508
ESEA Title IV Drug Free Schools	1,523,416	150,000	150,000
ESEA Title V & VI - Innovative Ed	1,674,190	250,000	250,000
IDEA	17,168,458	6,999,855	11,470,771
Adult Basic Education	1,267,724	140,000	140,000
Carl Perkins	2,903,237	190,000	190,000
Education of Homeless Children	53,703	50,000	50,000
Advanced Placement Fee Reimb	158,174	106,760	106,760
Comprehensive School Reform	821,024	20,000	20,000
Language Acquisition	-	425,000	425,000
Total	\$ 54,334,674	\$ 30,194,123	\$ 34,665,039
Programs Eliminated or Reduced			
ESEA Title II - Eisenhower Prof Development	\$ 1,550,970	\$ (1,643,444)	\$ (1,643,444)
ESEA Title III-Tech Literacy Challenge	1,272,819	(1,137,580)	(1,137,580)
ESEA Title VII - Immigrant Ed	26,701	(17,606)	(17,606)
School to Work	2,036,748	(2,036,748)	(2,036,748)
Reduced Class Size BL	7,536,684	(7,536,684)	(7,536,684)
Emergency School Renovation	1,955,178	(850,000)	(850,000)
Total	\$ 14,379,100	\$ (13,222,062)	\$ (13,222,062)
Total All Programs	\$ 68,713,774	\$ 16,972,061	\$ 21,442,977

DP 49 - Guarantee Account - Statutory Appropriations - This present law adjustment removes appropriation authority for Base aid from the general fund in the 2005 Biennium. A portion of Base aid payments to schools will be statutorily appropriated from the new guarantee fund in fiscal 2004 and 2005.

**LFD
COMMENT**

In fiscal 2002, there was a guarantee sub-account in the general fund into which was deposited common school lands income and interest (I&I). These funds were used to pay Base aid to schools as well as interest on the SB 495 loan. SB 495 (2001 legislature) created a loan from the coal tax trust to the common school lands trust. The \$46.4 million loan was used to purchase the stream of future mineral royalties generated on school lands. As a result of these transactions, mineral royalties could be used for school BASE aid in the guarantee sub-account instead of being deposited in the school lands trust as in the past.

Also in fiscal 2002, timber revenue from school lands was deposited into a state special account. The timber for technology account used funds from the previous year's timber harvest to purchase school technology in the current year.

For fiscal 2003, the guarantee sub account was abolished and a new state special guarantee account was created by HB 7, passed during the August 2002 special session. The new guarantee account receives school land interest and income, including mineral royalties, and school land timber revenue. Except for an amount to pay for SB 495 loan interest, all of these funds are statutorily appropriated (i.e. the appropriation is limited to the monies available in the fund) and are to be used for Base aid in fiscal 2003. The use of timber funds for technology purchases was temporarily eliminated in fiscal 2003 by HB 4 passed during the August 2002 special session. These funds are being used for BASE aid in fiscal 2003.

In fiscal 2004 and 2005, only the interest and income money will be available for Base aid under present law. The amount available for Base aid is the interest and income generated on school lands (including mineral royalties) less the SB 495 interest payment to the general fund, less the SB 495 principal payment to the permanent coal tax trust, required to pay back the \$46.4 million loan. The principal payment is 20 percent of each year's school lands mineral royalty revenues, and increases in subsequent years.

Under present law, the timber money received in fiscal 2004 will be reserved for technology purchases in fiscal 2005.

DP 51 - School Block Grants Established in HB 124 and HB 18 - This adjustment continues the block grants to schools and counties at the level stated in HB 18 of special session. "The governor shall include the appropriation in [section 248(1)] \$107,395,032 in the biennial present law base budget prepared for the 58th legislative session for continued funding of the school district budget items funded by that appropriation" and "The amount of \$12,210,205 must be reserved for countywide retirement and countywide transportation in fiscal year 2004, and the amount of \$12,303,002 must be reserved for countywide retirement and countywide transportation in fiscal year 2005."

**LFD
COMMENT**

The amount of the adjustment for district HB 124 block grants is \$-280,052 in fiscal 2004 and \$126,504 in fiscal 2005. The adjustment for the countywide transportation and retirement accounts is \$-525,094 in fiscal 2004 and \$-432,296 fiscal 2005. It was the intent of the legislature in HB 18 to continue to fund increases in both district and countywide HB 124 block grants at 0.76 percent per year in the 2005 biennium. These adjustments to the fiscal 2002 base year amounts are negative because HB 18 reduced fiscal 2003 block grants to adjust for overpayments in fiscal 2002. These overpayments were a result of miscalculations in the amount of motor vehicle tax revenue given up by the district accounts and the county accounts when HB 124 was passed in 2001. HB 18 directed that the block grants for fiscal 2004 are the average of the block grants in fiscal 2002 and 2003 plus growth of 0.76 percent.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 32 - Community Service Grant Program										
09	0.00	0	0	250,000	250,000	0.00	0	0	250,000	250,000
DP 39 - Reading First - Federal Title I, Part B, Subpart 1										
09	0.00	0	0	2,890,000	2,890,000	0.00	0	0	2,975,000	2,975,000
DP 41 - REI / Rural Low Income Schools										
09	0.00	0	0	458,056	458,056	0.00	0	0	458,056	458,056
DP 43 - Title IV 21st Century Community Learning Centers										
09	0.00	0	0	2,800,000	2,800,000	0.00	0	0	2,800,000	2,800,000
DP 8210 - Advisory Council recommendation on Averaging ANB (Requires Legislation)										
09	0.00	(150,000)	0	0	(150,000)	0.00	6,929,448	0	0	6,929,448
DP 8220 - Advisory Council rec.: Transportation & some HB124 (Requires Legislation)										
09	0.00	0	0	0	0	0.00	0	0	0	0
DP 8230 - Teacher (Requires Legislation)										
09	0.00	330,000	0	0	330,000	0.00	660,000	0	0	660,000
DP 8240 - Fund (Requires Legislation)										
09	0.00	(4,098,000)	4,098,000	0	0	0.00	(4,360,000)	4,360,000	0	0
DP 8250 - Reallocate (Requires Legislation)										
09	0.00	(1,000,000)	0	0	(1,000,000)	0.00	(900,000)	0	0	(900,000)
DP 8270 - Retire (Requires Legislation)										
09	0.00	(4,275,000)	0	0	(4,275,000)	0.00	(3,555,000)	0	0	(3,555,000)
DP 8280 - School (Requires Legislation)										
09	0.00	820,283	0	0	820,283	0.00	5,163,354	0	0	5,163,354
DP 8290 - Adjust HB 124 block grants (Requires Legislation)										
09	0.00	(175,099)	0	0	(175,099)	0.00	(545,309)	0	0	(545,309)
Total	0.00	(\$8,547,816)	\$4,098,000	\$6,398,056	\$1,948,240	0.00	\$3,392,493	\$4,360,000	\$6,483,056	\$14,235,549

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

The table below shows new proposed Federal grant awards.

Federal Grant Awards New Proposals		
Award	Fiscal 2004	Fiscal 2005
Community Service Grant Pgm	\$ 250,000	\$ 250,000
Reading First	2,890,000	2,975,000
REI/Rural Low Income Schools	458,056	458,056
Title IV-21st Cent Comm Learn Ctrs	2,800,000	2,800,000
Total	\$ 6,398,056	\$ 6,483,056

DP 32 - Community Service Grant Program – This is a Federal grant to implement a program under which students expelled or suspended from school are required to perform community service. This program is authorized within Title IV of the No Child Left Behind Act of 2001.

Montana is allocated \$250,000 in each year of the biennium from federal sources to support the program. Federal guidance has not been issued, therefore no further information regarding intent or intended outcomes is currently available.

DP 39 - Reading First - Federal Title I, Part B, Subpart 1 - This is a new federal program (replacing the Reading Excellence Act) to help States and local educational agencies utilize scientifically based reading research to implement comprehensive reading instruction for children in kindergarten through third grade.

This proposal requires sub-grantees to select and administer screening, diagnostic, and classroom-based instructional reading assessments to determine which students in kindergarten through grade 3 are at risk of reading failure. The proposal also requires sub-grantees to provide professional development, for teachers of students in kindergarten through grade 3 and special education teachers of students in kindergarten through grade 12, in the essential components of reading instruction.

DP 41 - REI / Rural Low Income Schools - The Accreditation Division of OPI requests authority for flow-through funds for distribution to schools under the provisions of the Rural Education Initiative's (REI) Rural Low Income Schools program (which is subpart 2 of the new federal ESEA law). This program provides funding to eligible school districts for teacher recruitment and retention, professional development, educational technology, parental involvement activities, safe and drug-free schools activities, language instruction activities and/or basic programs for improving the academic achievement of disadvantaged students (Title I Part A programs).

The Rural Low Income (RLI) program provides new federal funds to school districts that are: (1) not eligible to participate in the REI program for small, rural schools (subpart 1 of the new federal ESEA law), (2) serve only schools with a school locale code of 6, 7 or 8 which designates the districts rural location, and (3) have a child poverty rate of at least 20 percent (i.e., at least 20 percent of the children aged 5-17 that are served by the district are from families with incomes below the poverty rate). Federal law provides for formula funding of eligible districts (95 percent of the total state award) to provide the services authorized under the RLI program.

DP 43 - Title IV 21st Century Community Learning Centers - The Health Enhancement and Safety Division requests authority for flow-through funds to implement the 21st Century Community Learning Centers program. The program provides funding through a competitive grant process for local school districts, community based organizations and cooperative agreements between these groups to provide before-school, after-school, and summer school activities for school age children. Priority is given to schools with a high concentration of poor students and those schools determined to be in need of improvement. Activities must provide academic enrichment that complement regular school-based academic programs and provide literacy support to the families of students. The HES Division will implement the program and will arrange technical assistance and training services to Montana schools and community-based organizations. The current funding level within the HES Division is not sufficient to allow the OPI to provide this academic support service to schools.

Other Legislation Required to implement HB 2

DP 8210 - Governor's Advisory Council Recommendations on Averaging ANB - This proposal attempts to mitigate the effect of declining enrollments on school district general fund budgets by calculating a district's basic and per student entitlements using average number belonging (ANB) over a three-year period in fiscal 2005 and thereafter. A minor change in the definition of ANB is also included in this proposal. Beginning in fiscal 2004, the new definition would require that a student who attends only one class per day no longer be counted as half an ANB. State savings as a result of the definitional change are around \$150,000 per year.

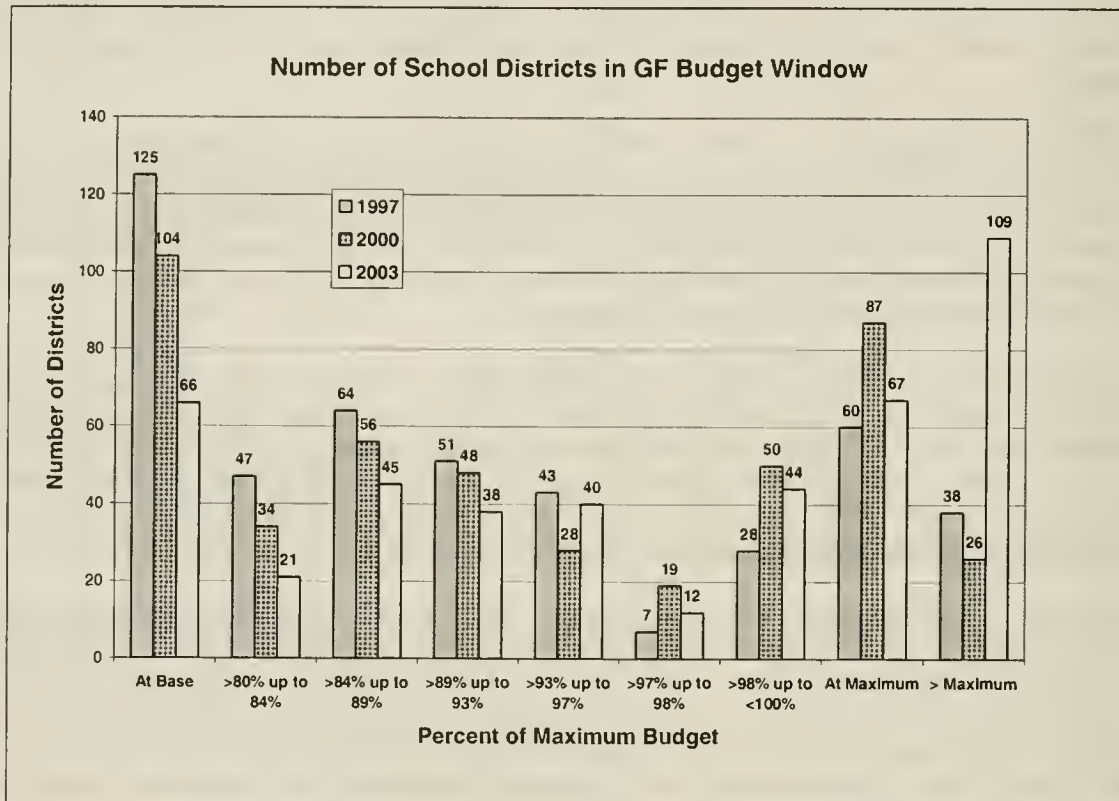
LFD ISSUE

The cost to the state in fiscal 2005 of the averaging proposal is \$7.1 million. The proposal requires that averaging be applied in districts with declining enrollment and increasing enrollment. The cost in the 2007 biennium is expected to be \$21 million.

The proposal also eliminates so-called "soft caps" instituted in SB390 passed in 2001 legislative session. Beginning in fiscal 2002, soft caps allow a district to exceed its maximum general fund budget for up to 5 years, upon voter approval.

**LFD
ISSUE
(continued)**

As shown in the figure, in fiscal 2003 there are 109 districts out of 448 that exceed their maximum general fund budget.



Under the proposal, each district would be required to budget at a level no greater than the maximum associated with its three year averaged ANB in fiscal 2005. Certain districts that were above their maximum budget in fiscal 1993 when HB 667 was passed will not be required to comply with the elimination of soft caps. Some districts may find it difficult to find savings. In fiscal 2003, the amount by which the average district exceeds the maximum general fund budget is 9.1 percent. Twenty-four districts exceed their maximum budget by 20 percent or more. The legislature may want to phase in the elimination of soft caps to allow these districts to adjust to lower spending requirements. The proposal to eliminate soft caps does not affect state general fund costs.

DP 8220 - Advisory Council: Transportation & Some HB 124 - This proposal combines several of the recommendations of the Advisory Council on School Funding. It includes:

- Simplifying the schedule for state and county reimbursements to school districts for school transportation. Current law distributes transportation aid based on weighted ridership and bus size. This proposal would eliminate weighted ridership as a basis for distributing transportation aid, but retain bus size. The proposal also increases the "base" mileage rate to \$0.95 per mile from \$0.85 per mile for the smallest bus size. The November ridership count is eliminated. This proposal would cost approximately \$1.7 million per year in fiscal 2004 and 2005 and would be matched by an additional \$1.7 million per year increase in county transportation requirements.
- Retaining one-half of HB 124 block grants to district transportation funds in the state general fund. This saves the state approximately \$1.7 million per year in HB 124 block grants in fiscal 2004 and fiscal 2005.
- Expanding the school facility entitlement program by allowing reimbursement for bond issues sold before July 1, 1991. The proposal would increase the state equalization ratio for all school debt service, which in effect increases the state GTB

subsidy for debt service on facilities. School facility entitlements would also be increased. The executive estimates this would cost the state general fund approximately \$3.99 million in each year of the 2005 biennium.

- o Retaining all HB 124 block grants to district's debt service accounts in fiscal years 2004 and 2005. This saves the state approximately \$3.99 million per year during the 2005 biennium.
- o Combining HB 124 block grants for the following district accounts: adult basic education, building reserve, bus depreciation, tuition and non-operating accounts. The state general fund will not be affected by this proposal.

LFD COMMENT This set of proposals has no effect on the state general fund balance in fiscal 2004 and 2005. The state retains the same amount in HB 124 block grants as it spends in transportation and school facility reimbursements. Also, statewide, the net effect on property taxes is zero. For the transportation proposal, county transportation property taxes statewide will increase by \$1.7 million, and district transportation property taxes statewide will fall by \$1.7 million. For the school facility proposal, the loss of HB 124 block grants will increase district property taxes statewide by \$4.0 million. Increasing the school facility GTB ratio and school facility entitlements, and extending coverage to pre-1991 bonds will decrease district property taxes statewide by \$4.0 million.

However, each proposal will shift property tax burdens between counties and between districts. Districts that receive relatively large HB 124 block grants under present law may receive relatively less in transportation or school facility reimbursements under the new system, and thus will have to increase property taxes to make up the difference. This is because HB 124 block grants tend to go to districts and counties that are relatively wealthy since a large portion of HB 124 block grants are reimbursements for business equipment property tax reductions enacted during the late 1990's. Thus, in many cases HB 124 block grants go to districts with a large amount of commercial property and few children.

Under the proposal, the transportation HB 124 block grant money will become state transportation aid and will now go to districts with relatively larger transportation needs, i.e. districts with many children, whose property tax needs may fall as a result. Districts with relatively few children that receive relatively large HB 124 block grants will see their property tax needs increase. The school facility HB 124 block grants will become state school facility reimbursements and will go to less wealthy districts or districts with larger school facility debt service needs. Property taxes in these districts may fall as a result. Districts with few children and smaller projects that under present law receive relatively large HB 124 payments will have to increase property taxes.

HB 124 block grants are skewed toward smaller schools with relatively large property bases. For instance, the median block grant in the district general fund is \$305 per ANB. Half of all districts have block grants below this amount. For the districts with grants below this amount the lowest block grant is \$3 per ANB. For the districts with grants above this amount, the highest block grant is \$3,537 per ANB. Approximately 50 percent of district general fund block grants are distributed to only 31 percent of ANB.

DP 8230 - Teacher Loan Repayment Program (Requires Legislation) - This proposal establishes a student loan repayment assistance program for Montana teachers with certification or endorsement to teach in critical geographic and endorsement shortage areas. The Board of Public Education will provide definitions for this program. Loan repayments would be limited to \$3,000 per teacher per year for a maximum of four years. The proposal is expected to cost \$330,000 in fiscal 2004 and \$660,000 in fiscal 2005

DP 8240 - Fund Switch Treasure State Endowment Program to General Fund - This proposal diverts over \$4 million per year, or 50 percent of Treasure State Endowment Program (TSEP) interest to a new school facility state special revenue account to expand school facility obligations of the state. The money would be used in conjunction with DP 8220 to finance extension of the school facility reimbursement program to districts with pre-1991 bonds, and to increase school facility entitlements and the state school facility GTB match. TSEP interest is currently used by cities and counties for water and sewer projects. See the Treasure State Endowment Program in the long range building section for the impacts of this proposal on water and sewer projects for cities and counties.

**LFD
ISSUE**

The proposal reduces TSEP interest revenue for use on water and sewer projects for cities and counties by approximately \$8 million in the 2005 biennium. Beginning in the 2007 biennium, the amount of interest withdrawn for school facility purposes will be \$4.36 million.

DP 8250 - Reallocate Timber Revenue to BASE Aid (Requires Legislation) - Under present law in fiscal 2004, timber revenues on school lands from production in excess of 18 million board feet per year are to be deposited in the guarantee account and reserved for payments to schools to be used for technology purchases in fiscal 2005. This proposal would continue to deposit timber revenues into the guarantee fund but the money would be used for BASE aid in fiscal 2004 and 2005, as was done in fiscal 2003.

DP 8270 - Retirement Fund Changes - This proposal changes accounting law for district retirement funds so that the district general fund charges only its retirement costs to the retirement fund. The proposal requires the fund that generates the salary cost to pay for the retirement costs associated with the salary cost. The proposal is expected to reduce state general fund GTB costs for the district retirement funds by \$4.3 million in fiscal 2004 and by \$3.6 million in fiscal 2005.

**LFD
ISSUE**

Under the proposal, district and federal budgeted and non-budgeted funds will be required to pay their own retirement costs in the county retirement fund. Primary district funds that will be affected are the transportation fund and the adult education fund. The primary federal funds are the miscellaneous programs fund and the school food services fund. The proposal is expected save taxpayers statewide \$12.4 million in fiscal 2004 and \$9.8 million in fiscal 2005 through reductions in property tax requirements in the countywide retirement accounts. However, after taking on this new retirement obligation, a district will either have to reduce services or replace the district monies expended on retirement costs with other district revenues, primarily property taxes. It is expected that district property taxes will increase statewide by \$2.7 million in fiscal 2004 and by \$2.8 million in fiscal 2005.

The effect of the proposal may give incentive to districts to shift salaries into the general fund from other funds and shift operating expenses from the general fund to other funds. The services funded from federal sources will be below what they otherwise would have been. However, federal funds are growing fast and actual service cuts from the prior year may not be necessary.

The federal Elementary and Secondary Education Act prohibits the use of federal funds to supplant or replace local funds. By requiring federal funds to pay for retirement costs which in the prior year were paid for out of the county retirement fund it is possible that the retirement proposal would be ruled as a replacement of federal funds. However, most states already do this, so it may be possible to obtain a variance.

DP 8280 - School Entitlement Increases and Reduction in Direct State Aid Percentage - This proposal increases school district basic and per-ANB entitlements by two percent in fiscal 2004 and by one percent in fiscal 2005. The proposal also decreases the direct state aid percentage from 44.7 percent to 42.6 percent. Base aid costs are expected to increase above present law by approximately \$0.8 million in fiscal 2004 and by \$5.2 million in fiscal 2005.

LFD
ISSUE

The table below shows the new basic and per-ANB entitlement amounts compared with those under present law.

School District Entitlements - Present Law and Proposed Law				
	Fiscal 2004 Present Law	Fiscal 2005 Present Law	Fiscal 2004 Proposed	Fiscal 2005 Proposed
Basic Entitlements				
Elementary	\$ 19,244	\$ 19,244	\$ 19,629	\$ 19,825
Percent Change		0.0%	2.0%	1.0%
High School	\$ 213,819	\$ 213,819	\$ 218,095	\$ 220,276
Percent Change		0.0%	2.0%	1.0%
Per ANB Entitlements				
Elementary	\$ 3,906	\$ 3,906	\$ 3,984	\$ 4,024
Percent Change		0.0%	2.0%	1.0%
High School	\$ 5,205	\$ 5,205	\$ 5,309	\$ 5,362
Percent Change		0.0%	2.0%	1.0%
Base Budget Components				
Direct State Aid	44.7%	44.7%	42.6%	42.6%
Guaranteed tax base aid	35.3%	35.3%	37.4%	37.4%

Under the proposal, districts that are not GTB eligible, and many that are GTB eligible, will receive less state Base aid than under present law in fiscal 2004. State mandated base property taxes in the district general fund will increase. The average district will receive slightly more in state base aid than under present law in fiscal 2004.

Compared with state base aid in fiscal 2003, under the proposal base aid in fiscal 2004 will decline by \$6.3 million. Approximately 350 districts will experience reductions in Base aid, and thus will experience equivalent increases in mandated base property taxes in fiscal 2004. The average reduction in base aid is 2.1 percent for those districts that receive less Base aid in fiscal 2004 as compared with fiscal 2003. For those that receive more base aid in fiscal 2004 than in fiscal 2003, the average increase in Base aid is 1.6 percent.

DP 8290 - Adjust HB 124 Block Grants (Requires Legislation) - This proposal delays growth in block grants for districts and for the county school transportation and school retirement accounts. The present law growth rate for both district and countywide block grants is 0.76 percent per year. The proposal also adjusts fiscal 2004 block grants to the county education accounts for reporting errors made in fiscal 2001, which the block grants were initially based on.

LFD
COMMENT

School district block grant savings to the state general fund as a result of this proposal are \$403,490 in fiscal 2004 and \$810,046 in fiscal 2005. District general fund GTB will increase by \$131,756 in fiscal 2004 and by \$260,899 in fiscal 2005.

Block grants to the countywide transportation and retirement accounts will decline by \$92,098 in fiscal 2004 and by \$184,895 in fiscal 2005. However, legislation will be offered to revise fiscal 2003 countywide block grants upward due to reflect more accurate data for actual receipts of revenue in these funds in fiscal 2001, the year HB 124 block grants were based on. These adjustments will add \$188,733 to countywide block grants in each year of the 2005 biennium.

Other Issues

Reduced Spending Options

The legislature may want to consider the following options to save or enhance state general fund balances:

- Reduce direct state aid percentage to its initial value in fiscal 1993 of 40 percent. This saves state general fund \$17.9 million in each year of the 2005 biennium. This amount is net of GTB backfill. The proposal would reduce payments to all districts, and would require an equivalent increase in Base mandatory property taxes. Wealthy districts would lose relatively more than less wealthy districts, and thus would experience the largest property tax increases.
- Reduce the statewide GTB guarantee level from 175 percent to 150 percent. This saves state general fund \$14.8 million each year of the 2005 biennium. Mandatory Base property taxes would increase by the same amount. The proposal would reduce GTB payments to the poorest districts the most. Wealthy districts would not be affected.
- Eliminate HB 124 block grants to districts - This saves the state nearly \$54 million in each year of the biennium. However, offsetting increases in GTB would backfill approximately \$17.5 million in each year of the biennium. The net impact of this proposal is state savings of \$36.5 million in each year of the 2005 biennium. Mandatory Base property taxes would increase by \$36.5 million per year statewide. The proposal would reduce HB 124 block grants to relatively wealthy districts and these districts would see the largest tax increase. The impact on less relatively wealthy districts would be mitigated by GTB backfill.
- Increase the stop loss ANB amount to 2,000 ANB from 1,000 ANB for elementary districts, and to 1,600 ANB from 800 ANB for high school districts. The ANB stop loss amount is the amount of ANB above which reductions in the per-ANB entitlement are eliminated. This would save the state general fund approximately \$6 million per year during the 2005 biennium. Property taxes statewide would increase by the same amount. Almost all of reductions in state Base aid, and the increases in property taxes, would impact only large schools districts.
-

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	4.00	0.00	0.00	4.00	0.00	0.00	4.00	4.00
Personal Services	198,938	10,455	0	209,393	10,081	0	209,019	418,412
Operating Expenses	110,358	22,458	0	132,816	22,410	0	132,768	265,584
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$309,296	\$32,913	\$0	\$342,209	\$32,491	\$0	\$341,787	\$683,996
General Fund	166,141	(8,935)	0	157,206	(11,206)	0	154,935	312,141
State/Other Special	143,155	41,848	0	185,003	43,697	0	186,852	371,855
Total Funds	\$309,296	\$32,913	\$0	\$342,209	\$32,491	\$0	\$341,787	\$683,996

Agency Description

The seven-member Board of Public Education, under authority of Article X, Section 9 of the Montana Constitution, exercises "general supervision over the public school system", including the School for the Deaf and Blind. This includes school accreditation, teacher certification, standardization of policies and programs, and equalization of aid distribution. Board accreditation is the basis for local school district eligibility for state funds. The board shares responsibility with the Board of Regents under Title 20, Chapter 2, MCA for general planning, coordination, and evaluation of the state education system.

Agency Discussion

Board of Public Education Major Budget Highlights
○ Total funding increases 10.6 percent over the 2002 base budget with an average 6.0 percent per year decrease in general fund ○ The requested level of expenditures for research projects would require spending some of the balance in the research fund account
Major LFD Issues
○ Teacher certification fees to offset general fund ○ Use of the research fund

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget				
Agency Program	General Fund	State Spec.	Grand Total	Total %
Administration	\$ 312,141	\$ 29,825	\$ 341,966	50.0%
Advisory Council	-	342,030	342,030	50.0%
Grand Total	\$ 312,141	\$ 371,855	\$ 683,996	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	4.00	0.00	4.00	4.00	0.00	4.00	4.00	4.00
Personal Services	209,393	0	209,393	209,019	0	209,019	394,076	418,412
Operating Expenses	132,816	0	132,816	132,768	0	132,768	270,277	265,584
Equipment	0	0	0	0	0	0	1,814	0
Total Costs	\$342,209	\$0	\$342,209	\$341,787	\$0	\$341,787	\$666,167	\$683,996
General Fund	157,206	0	157,206	154,935	0	154,935	341,818	312,141
State/Other Special	185,003	0	185,003	186,852	0	186,852	324,349	371,855
Total Funds	\$342,209	\$0	\$342,209	\$341,787	\$0	\$341,787	\$666,167	\$683,996

Agency Issues

LFD ISSUE

Increase Teacher Certification Fees to Fund Office

A main function of the Board of Public Education (BOPE) is to adopt policies for the issuance of teacher and specialist certificates in accordance with Title 20, Chapter 4, part 1, MCA. The statute also requires the board to conduct and act on proceedings regarding denial, suspension or revocation of teacher certificates through an investigation, possible hearing, and formal action. Annual funding requested for BOPE consists of about \$156,000 of general fund and \$186,000 of state special revenue from teacher certification fees. The Office of Public Instruction (OPI) Certification/Teacher Licensure Unit is responsible for the collection of fees and issuance of certificates, and the Superintendent of Public Instruction for the initial review of certification issues. The office is funded with \$223,000 general fund per year. The issue for legislative consideration is whether to increase teacher certification fees to replace general fund of the board and/or OPI, used to support teacher certification and accreditation.

20-4-109, MCA sets the fee for teacher and specialist certificates at \$6 per year. The fee is deposited into state special revenue accounts and statute requires that \$4 is used for expenses of the Certification Standards and Practices Advisory Council. This council is administratively attached to the Board of Public Education and makes recommendations regarding standards, policies and research activities to be undertaken by the Board. The remaining \$2 is used for special projects and research studies of the advisory council. Prior to fiscal 2000, the fee was split evenly between funding the advisory council expenses and the research fund.

LFD
ISSUE

Teachers re-certify every five years for a total cost of \$30 per teacher. New teachers certifying in Montana for the first time pay an additional \$6 registration fee. With about 5,200 teachers re-certifying each year, revenues collected from the fees have averaged around \$157,500 per year over the last three years. In comparison to neighboring western states, teacher certification fees in Montana are low. The states consulted have reported renewal fees of \$20 to \$30, application fees of \$25 to \$50, transcript review fees of \$50 for in-state graduates to \$175 for out-of-state graduates, and finger print fees between \$36 to \$50. Some states, including Wyoming and North Dakota, fund their board entirely with teacher fees. Wyoming, like Montana, issues a five year certificate, but at a cost of \$25 per year. The initial application fee is \$50 and first time teachers must also pay a finger print fee of \$45, an evaluation fee of \$50 for in-state graduates, and \$150 for out-of-state graduates. The renewal fee in North Dakota is \$25 per year for a five year certificate.

Figure I
Teacher Certification Fees

State Comparison			
	Application Fee	Renewal Fee	Avg. Teacher Salary
Montana	\$ 6.00	\$ 6.00	\$ 33,249
Idaho	-	17.50	37,109
North Dakota	25.00	20.00	30,891
South Dakota	-	6.00	30,265
Wyoming	50.00	25.00	34,678
New Mexico	50.00	25.00	33,531

Note - Many states have additional fees including transcript review, finger print & criminal background check, added fees for out-of state grads.

* Average teacher salary is from the American Federation of Teachers 2000-2001 salary trend survey.

First time applicants pay \$30 per year for a two year license plus a \$25 application fee, a \$42 fingerprint fee and a \$175 transcript review fee for out-of-state graduates. According to the "American Federation of Teachers 2000-2001 salary trend survey", average teacher salaries in North Dakota of \$30,891 are slightly less than Montana average salary of \$33,249. The Wyoming average salary is slightly higher at \$34,678.

The last fee increase in Montana occurred in 1991, at which time the fee was raised from \$5 to \$6. Since the fee and its distribution between the advisory council and research fund is established by statute, any fee increase would require statutory change through legislation outside of HB 2.

Options:

- Increase the annual fee to \$12 to provide an additional \$156,000 and replace Board of Public Education general fund.
- Increase the annual fee to \$15 to provide an additional \$234,000 and replace OPI Certification/Teacher Licensure Unit general fund.
- Increase the annual fee to \$21 to provide an additional \$390,000 and replace Board of Public Education and OPI Certification/Teacher Licensure Unit general fund.
- Increase the annual fee to \$13 to provide an additional \$156,000 to replace BOPE general fund and provide an additional \$20,000 to fund research activities at the requested level.
- Do not increase fees and approve BOPE funding at the requested level.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	2.00	0.00	0.00	2.00	0.00	0.00	2.00	2.00
Personal Services	121,431	(6,818)	0	114,613	(6,902)	0	114,529	229,142
Operating Expenses	56,751	830	0	57,581	(1,508)	0	55,243	112,824
Total Costs	\$178,182	(\$5,988)	\$0	\$172,194	(\$8,410)	\$0	\$169,772	\$341,966
General Fund	166,141	(8,935)	0	157,206	(11,206)	0	154,935	312,141
State/Other Special	12,041	2,947	0	14,988	2,796	0	14,837	29,825
Total Funds	\$178,182	(\$5,988)	\$0	\$172,194	(\$8,410)	\$0	\$169,772	\$341,966

Program Description

The Administration Program provides administration, research, clerical functions, and management of business affairs for all programs under the authority of the Board of Public Education. The Board of Public Education exists under Article X, Section 9 of the Montana Constitution, and exercises general supervision of the public school system.

Program Narrative

Administration Program Major Budget Highlights	
○	This program is funded 91.3 percent with general fund and the remaining with state special revenue from teacher certification fees
○	General fund decreases by about \$8,932 in fiscal 2004 and \$11,200 in fiscal 2005 from actual fiscal 2002 expenditures were primarily due to reductions in personal services carried forward from the 2002 Special Session along with replacement of an FTE at a lower rate of pay during the base year
○	State special revenue increases by about \$3,000 each year or 25 percent over fiscal 2002 expenditures to cover increased operating costs attributed to educator certification issues

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Administration						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 166,141	93.2%	\$ 157,206	91.3%	\$ 154,935	91.3%
02219 Research Fund	12,041	6.8%	14,988	8.7%	14,837	8.7%
Grand Total	\$ 178,182	100.0%	\$ 172,194	100.0%	\$ 169,772	100.0%

The Administration Program is funded with 91.3 percent general fund and 8.7 percent teacher certification fees. Teacher certification fees fund indirect costs and support the Teacher Certification Council, which is entirely funded with these fees.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				(5,667)						(5,751)
Vacancy Savings				0						0
Inflation/Deflation				192						220
Fixed Costs				2,910						743
Total Statewide Present Law Adjustments				(\$2,565)						(\$4,788)
DP 2 - Administrative Assessment	0.00	0	3,000	0	3,000	0.00	0	3,000	0	3,000
DP 7000 - General Adjustments	0.00	(6,423)	0	0	(6,423)	0.00	(6,622)	0	0	(6,622)
Total Other Present Law Adjustments				0.00	(\$6,423)	\$3,000	\$0	(\$3,423)	0.00	(\$6,622)
Grand Total All Present Law Adjustments					(\$5,988)					(\$8,410)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2 - Administrative Assessment - This proposal increases the contribution of the research fund into the board operating budget by \$3,000 per year to cover a growing work load attributed to educator certification issues. The increased dollars will come from teacher certification fees and are earmarked by the legislature in a state special revenue fund.

DP 7000 - General Adjustments - This present law adjustment includes reinstating per diem for board members for a general fund increase of \$2,000 per year, and reinstating Governor reductions and global special session reductions for a decrease of \$8,423 in fiscal 2004 and \$8,662 in fiscal 2005. By law the members of the Board of Public Education may receive an honorarium for time spent serving the board. This honorarium is paid out when a member is on official business approved by the chair or the executive secretary. Per diem is a zero based item and must be requested each biennium. This adjustment reduces personal services by \$1,151 per year and operating expenses by \$5,272 in fiscal 2004 and \$5,471 in fiscal 2005.

LFD COMMENT

The Advisory Council's recommended general fund budget is about 6.0 percent less than their fiscal 2002 actual expenditures and approximately equal to their fiscal 2003 anticipated budget. To sustain this lower level of spending in the next biennium, the board may have to forego National Association of State Boards of Education (NASBE) dues appropriated by the 2001 legislature, forego board meetings with the Board of Regents, and carry less in their budget for legal fees and contracted services, as expenditures in the base year were minimal and the board experienced limited litigation during the year. Also, the executive secretary assumed some of the work not needing to be accomplished by an attorney.

New federal mandates in the "No Child Left Behind Act" and the recent Montana Quality Education lawsuit make the board vulnerable to future litigation and could lead to the board seeking a supplemental appropriation if legal costs exceed 2002 actual expenditures of \$1,968. Litigation expenditures in fiscal 2001 were \$4,410, in fiscal 2000 were \$19,525 and in fiscal 1999 were \$8,515.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	2.00	0.00	0.00	2.00	0.00	0.00	2.00	2.00
Personal Services	77,507	17,273	0	94,780	16,983	0	94,490	189,270
Operating Expenses	53,607	21,628	0	75,235	23,918	0	77,525	152,760
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$131,114	\$38,901	\$0	\$170,015	\$40,901	\$0	\$172,015	\$342,030
State/Other Special	131,114	38,901	0	170,015	40,901	0	172,015	342,030
Total Funds	\$131,114	\$38,901	\$0	\$170,015	\$40,901	\$0	\$172,015	\$342,030

Program Description

The seven-member Certification Standards and Practices Advisory Council, authorized by 2-15-1522, MCA, studies issues and makes recommendations to the Board of Public Education relative to educator certification, certification standards, and changes and appeals in accordance with 20-4-133, MCA. The council submits recommendations to the board annually and as needed.

Program Narrative

Advisory Council Major Budget Highlights	
o	This program is funded entirely with teacher certification fees, with about 65 percent from the advisory council fund and 35 percent from the research fund
o	Expenditures from the research fund are anticipated to be approximately \$20,000 greater than the anticipated revenues each year, requiring additional authority to spend some of the current fund balance and increasing operating costs 40 percent over base year expenditures
o	Changes in staffing and pay during fiscal 2002 result in an approximate \$17,000 personal services adjustment in each year of the biennium due to a one-month vacancy, and upgrade, replacement of an FTE at a higher rate of pay, and annualization of the pay plan.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Advisory Council						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02122 Advisory Council	\$ 103,441	78.9%	\$ 110,000	64.7%	\$ 112,000	65.1%
02219 Research Fund	27,673	21.1%	60,015	35.3%	60,015	34.9%
02972 Icdm Conference	-	-	-	-	-	-
Grand Total	\$ 131,114	100.0%	\$ 170,015	100.0%	\$ 172,015	100.0%

The Certification Standards and Practices Advisory Council is funded with teacher certification fees. The current \$6 fee provides \$4 for council support and \$2 for research and study.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				17,273					16,983	
Vacancy Savings				0					0	
Inflation/Deflation				304					323	
Fixed Costs				2,770					1,306	
Total Statewide Present Law Adjustments				\$20,347					\$18,612	
DP 5 - Tie Appropriations to Anticipated Revenue										
0.00	0	18,554	0	18,554	0.00	0	22,289	0	22,289	
Total Other Present Law Adjustments										
0.00	\$0	\$18,554	\$0	\$18,554	0.00	\$0	\$22,289	\$0	\$22,289	
Grand Total All Present Law Adjustments				\$38,901					\$40,901	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 5 - Tie Appropriations to Anticipated Revenue - Research revenue is anticipated to be \$55,000 in fiscal 2004 and \$56,000 in fiscal 2005, with a current fund balance in excess of \$82,000. This appropriation provides authority to spend anticipated revenue plus \$5,000 per year in fund balance. Advisory Council revenue is anticipated to be \$110,000 in fiscal 2004 and \$112,000 in fiscal 2005. This adjustment reduces the base expenditures to the level of anticipated revenue.

LFD
ISSUE

Use of Fund Balance

This proposal combined with research funding of \$15,000 per year in Program 01 requires spending \$20,000 per year of the \$82,604 research fund balance. As shown in figure 2, this level of spending could not be sustained over the long-term without creating a deficit fund balance, assuming minimal growth in teacher certifications. The issue for consideration by the legislature is: should research activities be funded at the proposed level or should the fund balance and some portion of the future allocations be used to offset general fund within the administration program?

In fiscal 2002, research fund expenditures were \$39,715, approximately 25 percent less than the amount generated from the fee. Examples of how these funds have been used include a study of teacher retention and recruitment called "Who will Teach Our Children", and a sequel to this study that not only addressed teacher shortages but administrator shortages as well. During fiscal 1998 through 01 the average fund expenditures were \$71,445, indicating that the level of spending in fiscal 2002 was quite a bit lower than historical spending levels.

According to the board, this lower level of spending was attributed to the advisory council trying to be more judicious in what research activities were funded. A past effort regarding a professional development report proved to be ineffective. This adjustment combined with Program 01 research funding increases the research fund appropriation authority closer to historical spending levels at about \$75,000 per year, and \$20,000 more than the anticipated revenues. Some of the future activities anticipated by the advisory council include an assessment task force that would coordinate federal requirements of the "No Child Left Behind Act of 2001" with state level elementary and secondary education requirements and a possible distance learning initiative.

**LFD
ISSUE
(continued)**

Figure 2
Board of Public Education
Account Entity Review and Projection

	Fiscal 98	Fiscal 99	Fiscal 00	Fiscal 01	Fiscal 02	Fiscal 03	Projected Fiscal 04	Fiscal 05
<u>Advisory Council - 02122</u>								
Beg. Fund Balance	\$ 23,146	\$ 14,254	\$ 2,438	\$ 18,410	\$ 28,419	\$ 30,893	\$ 30,893	\$ 30,893
Revenues	77,192	77,852	104,421	104,639	106,027	109,138	110,000	112,000
Expenditures	(86,084)	(89,668)	(88,449)	(94,518)	(103,553)	(109,138)	(110,000)	(112,000)
Ending Fund Balance	\$ 14,254	\$ 2,438	\$ 18,410	\$ 28,419	\$ 30,893	\$ 30,893	\$ 30,893	\$ 30,893
<u>Research Fund - 02219</u>								
Beg. Fund Balance	\$ 95,620	\$ 82,619	\$ 86,691	\$ 67,332	\$ 69,314	\$ 82,604	\$ 64,548	\$ 44,545
Revenues	77,192	77,852	52,201	52,230	53,005	54,000	55,000	56,000
Expenditures	(90,193)	(73,780)	(71,560)	(50,248)	(39,715)	(72,056)	(75,003)	(74,852)
Ending Fund Balance	\$ 82,619	\$ 86,691	\$ 67,332	\$ 69,314	\$ 82,604	\$ 64,548	\$ 44,545	\$ 25,693
Number of teachers certifying	5,499	5,019	5,220	5,011	5,616			

Revenue source is from the \$6 teacher certification fee.

**Fiscal 1998 thru 2002 fund balance is based on actual revenue and expenditures. 2003 thru 2005 revenues and expenditures are based on the Executive proposed budget.*

Options:

- Authorize funding within this program at the level of anticipated revenues and utilize the fund balance to offset general fund in the Administration Program.
- Authorize funding at the fiscal 2002 actual expenditure level and direct the remaining revenues to the Administration Program.
- Increase teacher certification fees to sustain this level of research spending and/or offset general fund. Refer to the agency issue for further discussion.
- Revise the distribution between the advisory council and research fund.
- Authorize funding at the level requested for the 2005 biennium.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	81.68	0.00	0.00	81.68	0.00	0.00	81.68	81.68
Personal Services	3,255,166	191,493	0	3,446,659	194,271	0	3,449,437	6,896,096
Operating Expenses	546,490	36,046	(84,328)	498,208	16,071	(66,725)	495,836	994,044
Equipment	28,802	(28,802)	0	0	(28,802)	0	0	0
Total Costs	\$3,830,458	\$198,737	(\$84,328)	\$3,944,867	\$181,540	(\$66,725)	\$3,945,273	\$7,890,140
General Fund	3,506,495	141,323	(141,323)	3,506,495	123,720	(123,720)	3,506,495	7,012,990
State/Other Special	235,065	49,616	56,995	341,676	50,022	56,995	342,082	683,758
Federal Special	88,898	7,798	0	96,696	7,798	0	96,696	193,392
Total Funds	\$3,830,458	\$198,737	(\$84,328)	\$3,944,867	\$181,540	(\$66,725)	\$3,945,273	\$7,890,140

Agency Description

The Montana School for the Deaf and Blind operates under the authority of Title 20-8-101 through 121, MCA and the policy and governance of the State Board of Public Education. The school provides resident and outreach educational services to deaf and hard of hearing, and blind and low vision children whose impairment is such as to preclude their making average progress in regular public schools. In addition, the school serves as a resource center to parents of deaf and blind children, along with state public school and organizations that serve the deaf and blind. Their goal, like most other schools, is to allow their students to attain the attitude, understanding, skill, ability, and knowledge to become contributing members of society.

Agency Discussion

School for the Deaf and Blind Major Budget Highlights
○ Total funding increases 2.8 percent over the 2003 biennium appropriation ○ General fund is maintained at the same level as actual fiscal 2002 expenditures ○ Budget balancing items include general operating reductions and continuing the Montana Telecommunications Access Program (MTAP) funding switch approved during the August 2002 Special Session
Major LFD Issues
○ MTAP funding switch

Funding

The following table summarizes funding for the agency, by program and source as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

**Total Agency Funding
2005 Biennium Executive Budget**

<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Grand Total</u>	<u>Total %</u>
Administration Program	\$ 638,347	\$ 1,568	\$ -	\$ 639,915	8.1%
General Services Program	695,931	-	-	695,931	8.8%
Student Services	2,008,757	-	55,504	2,064,261	26.2%
Education	3,669,955	682,190	137,888	4,490,033	56.9%
Grand Total	\$ 7,012,990	\$ 683,758	\$ 193,392	\$ 7,890,140	100.0%

Biennium Budget Comparison

Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	81.68	0.00	81.68	81.68	0.00	81.68	81.68	81.68
Personal Services	3,446,659	0	3,446,659	3,449,437	0	3,449,437	6,387,666	6,896,096
Operating Expenses	582,536	(84,328)	498,208	562,561	(66,725)	495,836	1,227,446	994,044
Equipment	0	0	0	0	0	0	57,604	0
Total Costs	\$4,029,195	(\$84,328)	\$3,944,867	\$4,011,998	(\$66,725)	\$3,945,273	\$7,672,716	\$7,890,140
General Fund	3,647,818	(141,323)	3,506,495	3,630,215	(123,720)	3,506,495	6,913,790	7,012,990
State/Other Special	284,681	56,995	341,676	285,087	56,995	342,082	581,130	683,758
Federal Special	96,696	0	96,696	96,696	0	96,696	177,796	193,392
Total Funds	\$4,029,195	(\$84,328)	\$3,944,867	\$4,011,998	(\$66,725)	\$3,945,273	\$7,672,716	\$7,890,140

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals

Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7001 - Continue Special Session fund switch										
04	0.00	(56,995)	56,995	0	0	0.00	(56,995)	56,995	0	0
DP 7020 - Reduction to balance the budget										
01	0.00	(2,105)	0	0	(2,105)	0.00	(2,105)	0	0	(2,105)
DP 7020 - Reduction to balance the budget										
02	0.00	(7,500)	0	0	(7,500)	0.00	(7,500)	0	0	(7,500)
DP 7020 - Reduction to Balance the Budget										
03	0.00	(3,846)	0	0	(3,846)	0.00	(3,846)	0	0	(3,846)
DP 7020 - Reduction to Balance the Budget										
04	0.00	(70,877)	0	0	(70,877)	0.00	(53,274)	0	0	(53,274)
Total	0.00	(\$141,323)	\$56,995	\$0	(\$84,328)	0.00	(\$123,720)	\$56,995	\$0	(\$66,725)

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	5.00	0.00	0.00	5.00	0.00	0.00	5.00	5.00
Personal Services	230,284	15,280	0	245,564	14,537	0	244,821	490,385
Operating Expenses	82,012	6,739	(2,105)	86,646	(17,023)	(2,105)	62,884	149,530
Total Costs	\$312,296	\$22,019	(\$2,105)	\$332,210	(\$2,486)	(\$2,105)	\$307,705	\$639,915
General Fund	312,296	21,438	(2,105)	331,629	(3,473)	(2,105)	306,718	638,347
State/Other Special	0	581	0	581	987	0	987	1,568
Total Funds	\$312,296	\$22,019	(\$2,105)	\$332,210	(\$2,486)	(\$2,105)	\$307,705	\$639,915

Program Description

The Administration Program staff provide purchasing, accounting, personnel functions, and management of business affairs for the school.

Program Narrative

Administration Program Major Budget Highlights
o Budget balancing reductions decrease supplies, travel, and other general expenses by \$2,105 each year

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Administration Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 312,296	100.0%	\$ 331,629	99.8%	\$ 306,718	99.7%
02050 School Trust Interest/Income	-	-	581	0.2%	987	0.3%
Grand Total	\$ 312,296	100.0%	\$ 332,210	100.0%	\$ 307,705	100.0%

This program is funded primarily with general fund. A minimal amount of school trust lands interest income also contributes to the program.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					25,511					24,737
Vacancy Savings					(10,231)					(10,200)
Inflation/Deflation					722					722
Fixed Costs					6,017					(17,745)
Total Statewide Present Law Adjustments					\$22,019					(\$2,486)
Grand Total All Present Law Adjustments					\$22,019					(\$2,486)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7020 - Reduction to balance the budget										
01	0.00	(2,105)	0	0	(2,105)	0.00	(2,105)	0	0	(2,105)
Total	0.00	(\$2,105)	\$0	\$0	(\$2,105)	0.00	(\$2,105)	\$0	\$0	(\$2,105)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7020 - Reduction to balance the budget - Reduction to base operating supplies and travel in order to balance statewide general fund revenue and expenditure.

LFD COMMENT

This proposal reduces supplies by \$1,000, travel by \$875 and other expenses such as training, subscriptions and dues by \$230 each year.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	4.00	0.00	0.00	4.00	0.00	0.00	4.00	4.00
Personal Services	115,094	12,078	0	127,172	12,136	0	127,230	254,402
Operating Expenses	201,934	27,270	(7,500)	221,704	25,391	(7,500)	219,825	441,529
Total Costs	\$317,028	\$39,348	(\$7,500)	\$348,876	\$37,527	(\$7,500)	\$347,055	\$695,931
General Fund	317,028	39,348	(7,500)	348,876	37,527	(7,500)	347,055	695,931
Total Funds	\$317,028	\$39,348	(\$7,500)	\$348,876	\$37,527	(\$7,500)	\$347,055	\$695,931

Program Description

The General Services Program staff are responsible for general upkeep and maintenance of the school's eight buildings and 12-acre campus.

Program Narrative

General Services Program Major Budget Highlights	
○ Total funding increases approximately \$30,000 due to statewide present law adjustments (primarily fixed cost increases for insurance and bonds) ○ Budget balancing reductions decrease the supplies and utilities budget by a total of \$7,500 per year ○ General fund savings derived from a decrease in a bond repayment schedule and replacement of a van with a motor pool vehicle ○ An increase in the maintenance budget offsets the budget balancing reductions ○	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table General Services Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 317,028	100.0%	\$ 348,876	100.0%	\$ 347,055	100.0%
Grand Total	\$ 317,028	100.0%	\$ 348,876	100.0%	\$ 347,055	100.0%

This program is funded entirely with general fund.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				17,377					17,437	
Vacancy Savings				(5,299)					(5,301)	
Inflation/Deflation				1,305					2,563	
Fixed Costs				18,465					18,815	
Total Statewide Present Law Adjustments				\$31,848					\$33,514	
DP 5 - Bond Repayment - Mechanical Project										
0.00	0	0	0	0	0.00	(2,000)	0	0	(2,000)	
DP 7000 - General adjustments										
0.00	7,500	0	0	7,500	0.00	6,013	0	0	6,013	
Total Other Present Law Adjustments										
0.00	\$7,500	\$0	\$0	\$7,500	0.00	\$4,013	\$0	\$0	\$4,013	
Grand Total All Present Law Adjustments				\$39,348					\$37,527	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD COMMENT

Fixed costs include a decrease of \$2,300 each year due to the school replacing the power burner on its boiler in fiscal 2003. The new power burner is expected to be four percent more efficient than the old one and should result in a natural gas savings.

DP 5 - Bond Repayment - Mechanical Project - The State Buildings Energy Conservation Program funded a retrofit of the school HVAC system in 1994. The bond repayment schedule on this project decreases from \$10,000 in fiscal 2004 to \$8,000 in fiscal 2005.

DP 7000 - General adjustments - There is a reduction in vehicle maintenance and gasoline due to savings from replacing an old school van with a lease van from the State Motor Pool, offset by a \$7,500 per year increase in campus maintenance.

LFD COMMENT

This \$7,500 per year adjustment brings the repair and maintenance budget to about \$29,800 per year in maintenance contracts for the school's pneumatic temperature, security and fire control systems, for building, equipment, and vehicle repairs that occur during the year. Savings from the van lease rate, which includes gasoline and vehicle maintenance, is \$1,487 in fiscal 2005.

New Proposals										
Fiscal 2004					Fiscal 2005					
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7020 - Reduction to balance the budget										
02	0.00	(7,500)	0	0	(7,500)	0.00	(7,500)	0	0	(7,500)
Total	0.00	(\$7,500)	\$0	\$0	(\$7,500)	0.00	(\$7,500)	\$0	\$0	(\$7,500)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7020 - Reduction to balance the budget - Reduction to base operating expenses in supplies and utilities in order to balance statewide general fund revenue and expense.

LFD
COMMENT

This reduction decreases the supplies budget by \$2,500, and the utilities budget by \$5,000 each year. Due to energy efficiencies provided through the purchase of a new boiler in fiscal 2003, utility expenses are anticipated to decrease by \$5,000 per year. This proposal offsets the present law increase of \$7,500 per year in the maintenance budget.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	29.74	0.00	0.00	29.74	0.00	0.00	29.74	29.74
Personal Services	804,597	122,438	0	927,035	124,746	0	929,343	1,856,378
Operating Expenses	102,678	2,278	(3,846)	101,110	7,941	(3,846)	106,773	207,883
Equipment	28,802	(28,802)	0	0	(28,802)	0	0	0
Total Costs	\$936,077	\$95,914	(\$3,846)	\$1,028,145	\$103,885	(\$3,846)	\$1,036,116	\$2,064,261
General Fund	911,077	93,162	(3,846)	1,000,393	101,133	(3,846)	1,008,364	2,008,757
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	25,000	2,752	0	27,752	2,752	0	27,752	55,504
Total Funds	\$936,077	\$95,914	(\$3,846)	\$1,028,145	\$103,885	(\$3,846)	\$1,036,116	\$2,064,261

Program Description

The Student Services Program provides residential care for children living at the school.

Program Narrative

Student Services Program Major Budget Highlights	
o	Total funding increases approximately \$100,000 per year due to annualization of the pay plan and base year upgrades for cottage life attendants
o	A policy change of leasing vehicles from the state motor pool rather than purchasing new vehicles provides a cost savings
o	Overtime for cottage staff is restored
o	Budget balancing reductions decrease supplies, repair and maintenance, and other expenses

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Student Services						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 911,077	97.3%	\$ 1,000,393	97.3%	\$ 1,008,364	97.3%
03167 National School Lunch	25,000	2.7%	27,752	2.7%	27,752	2.7%
Grand Total	<u>\$ 936,077</u>	<u>100.0%</u>	<u>\$ 1,028,145</u>	<u>100.0%</u>	<u>\$ 1,036,116</u>	<u>100.0%</u>

The Student Services program is funded primarily with general fund and a small amount of revenue from the federal school lunch program.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				149,603					152,008	
Vacancy Savings				(38,165)					(38,262)	
Inflation/Deflation				32					192	
Fixed Costs				(506)					(506)	
Total Statewide Present Law Adjustments				\$110,964					\$113,432	
DP 7000 - General adjustments										
0.00	(17,802)	0	2,752	(15,050)	0.00	(12,299)	0	2,752	(9,547)	
Total Other Present Law Adjustments										
0.00	(\$17,802)	\$0	\$2,752	(\$15,050)	0.00	(\$12,299)	\$0	\$2,752	(\$9,547)	
Grand Total All Present Law Adjustments				\$95,914					\$103,885	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7000 - General adjustments - This adjustment includes removing funding for the one-time purchase of new vehicles, reinstating zero-based overtime, adjusting the food budget to match actual fiscal 2002 expenditures and replacing a 15-passenger van with a leased 7-passenger van from the State Motor Pool in fiscal 2005. The offsetting reduction in vehicle maintenance and gasoline is included in the General Services Program since the lease rate for the van includes gasoline and maintenance.

The Student Services Program incurred \$17,822 in overtime expenditures in fiscal 2002 for classified staff. Overtime is provided to cottage staff who work past their schedule to cover for staff that have called in sick and for which substitutes can not be located. Minimal overtime is also incurred during student travel.

Costs associated with this adjustment are detailed in the following figure.

LFD
COMMENT

Figure 1 Student Services Program Costs Associated with General Adjustments			
Budget Item	Fiscal 2004	Fiscal 2005	Biennium Total
Remove Vehicle Purchase Budget	\$ (28,802)	\$ (28,802)	\$ (57,604)
Reinstate Overtime	11,000	11,000	22,000
Motor Pool Lease	-	5,503	5,503
Food Budget Adjustment	2,752	2,752	5,504
Total	\$ (15,050)	\$ (9,547)	\$ (24,597)
Funding Source			
1100-General Fund	\$ (17,802)	\$ (12,299)	\$ (30,101)
03167-National School Lunch	2,752	2,752	5,504
Total	\$ (15,050)	\$ (9,547)	\$ (24,597)

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7020 - Reduction to Balance the Budget										
03	0.00	(3,846)	0	0	(3,846)	0.00	(3,846)	0	0	(3,846)
Total	0.00	(\$3,846)	\$0	\$0	(\$3,846)	0.00	(\$3,846)	\$0	\$0	(\$3,846)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7020 - Reduction to Balance the Budget - The Executive proposed a reduction to base operating budgeted in order to balance statewide general fund revenue.

LFD COMMENT

This proposal reduces supplies by \$3,000, repair and maintenance by \$741 and other expenses by \$105 in each year of the 2005 biennium.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	42.94	0.00	0.00	42.94	0.00	0.00	42.94	42.94
Personal Services	2,105,191	41,697	0	2,146,888	42,852	0	2,148,043	4,294,931
Operating Expenses	159,866	(241)	(70,877)	88,748	(238)	(53,274)	106,354	195,102
Total Costs	\$2,265,057	\$41,456	(\$70,877)	\$2,235,636	\$42,614	(\$53,274)	\$2,254,397	\$4,490,033
General Fund	1,966,094	(12,625)	(127,872)	1,825,597	(11,467)	(110,269)	1,844,358	3,669,955
State/Other Special	235,065	49,035	56,995	341,095	49,035	56,995	341,095	682,190
Federal Special	63,898	5,046	0	68,944	5,046	0	68,944	137,888
Total Funds	\$2,265,057	\$41,456	(\$70,877)	\$2,235,636	\$42,614	(\$53,274)	\$2,254,397	\$4,490,033

Program Description

The Education Program provides an education for children with hearing and/or sight loss that prevents them from receiving a quality education in their local schools. The Education Program serves visually and hearing impaired children who remain in their local school districts by providing deaf/blind educational support services to the students' local schools. The program also offers "mainstream" programs for on-campus students in a joint effort with the Great Falls public school system.

Program Narrative

Education Program Major Budget Highlights
○ Total funding decreases approximately 1 percent ○ The funding switch approved during the 2002 special session is continued, replacing \$56,995 general fund per year with funds from the account for telecommunications services for persons with disabilities ○ Budget balancing actions reduce supplies, repair and maintenance, and other expenses by \$70,877 in fiscal 2004 and \$53,274 in fiscal 2005
Major LFD Issues
○ MTAP funding switch

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Education						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,966,094	86.8%	\$ 1,825,597	81.7%	\$ 1,844,358	81.8%
02050 School Trust Interest/Income	235,065	10.4%	284,100	12.7%	284,100	12.6%
02159 Handicapped Telecommunications	-	-	56,995	2.5%	56,995	2.5%
03012 E.C.I.A. Chapter I	63,898	2.8%	68,944	3.1%	68,944	3.1%
Grand Total	\$ 2,265,057	100.0%	\$ 2,235,636	100.0%	\$ 2,254,397	100.0%

This program is funded primarily with general fund. Other funding includes state special revenue from school trust lands, Montana Telecommunication Access Program (MTAP), rental income, and reimbursements from school districts for large print and Braille materials, federal handicapped children grants and Medicaid reimbursements.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					78,868					80,071
Vacancy Savings					(87,362)					(87,410)
Inflation/Deflation					468					471
Fixed Costs					(709)					(709)
Total Statewide Present Law Adjustments					(\$8,735)					(\$7,577)
DP 7000 - General adjustments	0.00	50,191	0	0	50,191	0.00	50,191	0	0	50,191
Total Other Present Law Adjustments	0.00	\$50,191	\$0	\$0	\$50,191	0.00	\$50,191	\$0	\$0	\$50,191
Grand Total All Present Law Adjustments					\$41,456					\$42,614

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7000 - General adjustments - The recommendation includes reinstating insurance and extra-curricular compensation omitted by MBARS calculations.

LFD COMMENT

This adjustment includes a \$41,041 per year insurance adjustment due to an error in calculating the insurance amounts for a half-time teacher of the deaf, 10 full time interpreters and 8 teaching assistants. Also included is \$9,150 per year extra-curricular compensation pay. The school pays extracurricular compensation to staff for sponsoring Junior N.A.D., Coaching, Class Sponsors, Cane Club, Newsletter, Year Book Coordinator, and Expressions of Silence. The collective bargaining agreement with teachers and support staff sets the fees for these extracurricular activities.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7001 - Continue Special Session fund switch										
04	0.00	(56,995)	56,995	0	0	0.00	(56,995)	56,995	0	0
DP 7020 - Reduction to Balance the Budget										
04	0.00	(70,877)	0	0	(70,877)	0.00	(53,274)	0	0	(53,274)
Total	0.00	(\$127,872)	\$56,995	\$0	(\$70,877)	0.00	(\$110,269)	\$56,995	\$0	(\$53,274)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7001 - Continue Special Session fund switch - SB 27 in the special session enabled the legislature to appropriate the state special revenue fund for telecommunications services for persons with disabilities to the School for the Deaf and Blind. This proposal continues the same level of appropriation to the school as was allocated in the special session, or \$56,995. A fund switch reducing general fund and increasing state special funds by the same amount accomplishes this.

LFD
ISSUE

During the August 2002 Special Session, the legislature approved this funding switch to offset Governor reductions implemented under the authority of 17-7-140, MCA, along with global general fund reductions approved during the special session. SB 37 revised 53-19-306, MCA allowing the Montana School for the Deaf and Blind to use MTAP funds for the purposes established in statute, which include:

"(a) furnish specialized telecommunications equipment to meet the needs of persons with disabilities;

(b) provide a telecommunications relay service system to connect persons with disabilities with all phases of public telecommunications service, including telecommunications service to emergency services and public safety agencies as defined in 10-4-101; and

(c) determine if infants are hearing-impaired as early as possible in order to reduce long-term costs in providing assistance. "

The fiscal 2002 handicapped telecommunications fund balance is about \$875,000. Fiscal 2002 revenues were approximately \$100,000 greater than actual expenditures. However, there was discussion during the special session that MTAP expenditures are anticipated to outpace revenues due to increased costs for specialized telephone equipment and an average annual 10 percent growth rate in utilization of relay services. Based upon a review of the fund balance, Department of Public Health and Human Services' (DPHHS) proposals for the use of these funds (refer to issues and fund balance review in Section B, Health and Human Services, Program 04 Director's Office), and LFD revenue projections, an adequate fund balance is anticipated through the end of fiscal 2005 (over \$70,000).

Options:

- o If approved, the legislature may want to appropriate the funding as restricted and one-time-only, and require the school to report to the Education Appropriations Subcommittee of the 59th legislature on items funded with MTAP funds.

DP 7020 - Reduction to Balance the Budget - This proposal reduces the base operating budget, primarily supplies and materials, but also repairs and other operating expenses.

**LFD
COMMENT**

Details regarding the reductions are included in the following figure.

Figure 2					
Education Program					
Budget Balancing Reductions and Impacts					
	Base Budget	Executive Reduction		% Change	% Change
	Fiscal 2002	Fiscal 2004	Fiscal 2005	Fiscal 2004	Fiscal 2005
<u>Budget Item</u>					
Supplies & Materials	\$ 97,257	\$ (61,878)	\$ (44,275)	-63.62%	-45.52%
Repair & Maintenance	7,739	(2,545)	(2,545)	-32.89%	-32.89%
Other Expenses	15,770	(6,454)	(6,454)	-40.93%	-40.93%
Total	\$ 120,766	\$ (70,877)	\$ (53,274)		
<u>Funding Source</u>					
1100-General Fund	\$ 120,766	\$ (70,877)	\$ (53,274)		
Total	\$ 120,766	\$ (70,877)	\$ (53,274)		

These reductions in addition to Governor and 2002 special session reductions have limited the purchase of educational materials and subscriptions. The school will forego replacement of the reading and math series text books. In addition, funding for replacing computers approved by the 2001 legislature, in order to keep the school on a four-year replacement schedule, has been eliminated.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	7.00	0.00	0.00	7.00	0.00	0.00	7.00	7.00
Personal Services	314,676	57,744	0	372,420	58,380	0	373,056	745,476
Operating Expenses	237,299	(14,733)	0	222,566	(19,116)	0	218,183	440,749
Grants	392,434	101,257	(31,120)	462,571	101,263	(31,120)	462,577	925,148
Total Costs	\$944,409	\$144,268	(\$31,120)	\$1,057,557	\$140,527	(\$31,120)	\$1,053,816	\$2,111,373
General Fund	339,050	(7,589)	(31,120)	300,341	(6,423)	(31,120)	301,507	601,848
State/Other Special	140,829	17,271	0	158,100	12,394	0	153,223	311,323
Federal Special	464,530	134,586	0	599,116	134,556	0	599,086	1,198,202
Total Funds	\$944,409	\$144,268	(\$31,120)	\$1,057,557	\$140,527	(\$31,120)	\$1,053,816	\$2,111,373

Agency Description

The Montana Arts Council is authorized by Title 22-2-101, MCA to assist public and private institutions with artistic and cultural activities. The council encourages participation in, and appreciation of, the arts. The council fosters interest in the state's cultural heritage, expands state cultural resources, and supports freedom of artistic expression through ongoing programs and projects. The council administers the Cultural and Aesthetic Project grants, other grants approved by the legislature, and makes recommendations to the legislature on arts related issues.

Executive Recommended Legislation

Cultural & Aesthetic Grants - The executive intends to propose legislation establishing priorities and appropriating funding for cultural and aesthetic project grants. For further information, see the Long Range Planning section of this volume.

Agency Discussion

Montana Arts Council Major Budget Highlights	
○ The total agency budget increases \$220,000 over previous biennium funding ○ The proposed general fund budget decreases \$38,709 in fiscal 2004 and \$37,543 in fiscal 2005 from base year expenditures, eliminating general fund support for the technical assistance program and matching funds for grants to local communities and arts education projects ○ General fund decreases are offset by increased in federal National Endowment for the Arts (NEA) funding	
Major LFD Issues	
○ Increased reliance on general fund over recent biennia ○ Percent for Arts Program	

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Program Funding Table Promotion Of The Arts						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 339,050	35.9%	\$ 300,341	28.4%	\$ 301,507	28.6%
02009 Cultural And Aesthetic Project	140,829	14.9%	158,100	14.9%	153,223	14.5%
03016 Nea Funds-Basic State Grant	419,030	44.4%	542,216	51.3%	542,186	51.4%
03017 Nea Funds-Arts In Education	45,500	4.8%	56,900	5.4%	56,900	5.4%
Grand Total	\$ 944,409	100.0%	\$ 1,057,557	100.0%	\$ 1,053,816	100.0%

The Montana Arts Council is funded with a combination of general fund, state special revenue from Cultural & Aesthetic (C&A) Trust Fund interest earnings, and federal funds from the National Endowment for the Arts (NEA).

Over past biennia, general fund has supported administration, legislative audit costs, and a small portion of grants including artist residencies in schools, local community grants, and Arts are Central grants. The Executive Budget eliminates general fund support of the artist in school and local community grants with \$50,000 general fund remaining for grants through the Arts are Central program.

State special revenue from the C&A project account provides for the administration of C&A grants, the cost of the council as authorized in section 22-2-304, MCA and the folklife program. Federal NEA funding supports education and community grants, honorariums and administration.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	7.00	0.00	7.00	7.00	0.00	7.00	7.00	7.00
Personal Services	372,420	0	372,420	373,056	0	373,056	652,896	745,476
Operating Expenses	222,566	0	222,566	218,183	0	218,183	404,746	440,749
Grants	493,691	(31,120)	462,571	493,697	(31,120)	462,577	833,739	925,148
Total Costs	\$1,088,677	(\$31,120)	\$1,057,557	\$1,084,936	(\$31,120)	\$1,053,816	\$1,891,381	\$2,111,373
General Fund	331,461	(31,120)	300,341	332,627	(31,120)	301,507	658,135	601,848
State/Other Special	158,100	0	158,100	153,223	0	153,223	278,245	311,323
Federal Special	599,116	0	599,116	599,086	0	599,086	955,001	1,198,202
Total Funds	\$1,088,677	(\$31,120)	\$1,057,557	\$1,084,936	(\$31,120)	\$1,053,816	\$1,891,381	\$2,111,373

LFD
COMMENT

Proposed 2005 biennium changes to Arts Council funding, including budget balancing reductions and increases in non-general funding, have resulted in an overall funding increase but have changed the funding make-up of the council as illustrated in the following figures:

Figure 1

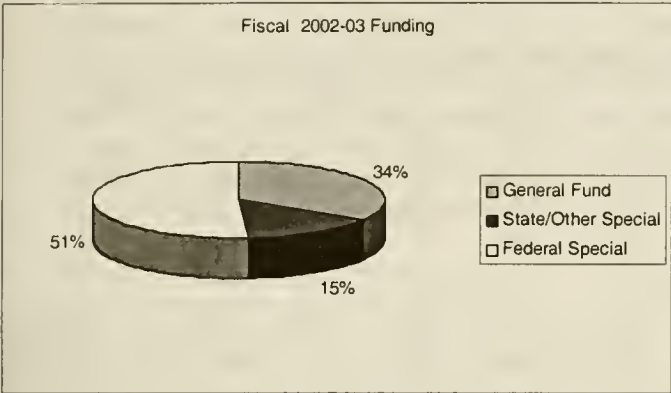
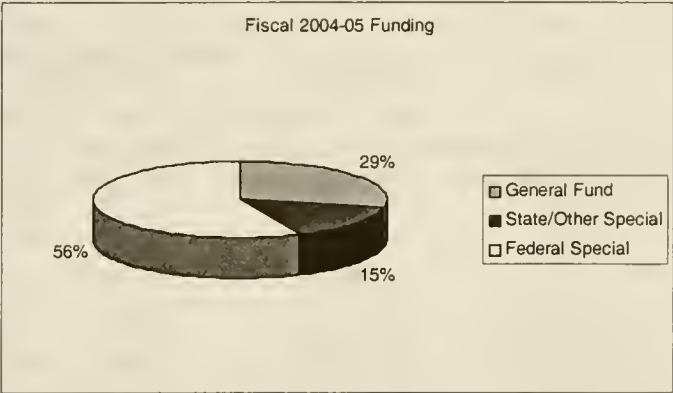


Figure 2



Agency Issues

LFD
ISSUE

Increased Reliance on General Fund

Reliance on the general fund has increased since 1997 due to significant reductions in NEA funding at the federal level and increased general fund support for grants and administration, including a policy change by the 1999 legislature to fund a portion of the Cultural & Aesthetic (C&A) project grants with general fund.

The Arts Council promotes cultural and artistic activities. It administers general fund grants appropriated through HB 2, C&A grants which are appropriated by the Long Range Planning Subcommittee in HB 9, and federal special revenue grants (NEA). Prior to the 1999 biennium, general fund was around \$250,000 per biennium supporting less than 15 percent of the overall Arts Council budget. In 1997, Montana's federal funding for the arts decreased approximately 40 percent from fiscal 1994 levels due to fiscal and philosophical changes at the national level resulting in severely reduced federal funding of the NEA. In an effort to adjust to this funding loss, the Arts Council eliminated 3 FTE, streamlined operations to absorb the over \$400,000 loss of operating budget and secured a general fund increase of over 90 percent, approximately \$221,000, from the 1997 legislature. Since then, the Art's Council general fund budget has been about 30 percent or more of total funding.

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ISSUE
(continued)**

In addition, HB 9 (1999) enacted by the 56th Legislature implemented a major change from previous legislatures by appropriating \$600,000 of state general fund in HB 9 to the Montana Arts Council for C&A grant support. Justification for doing so was a result of the 55th Legislature using approximately one-half of the Cultural Trust fund balance (\$3,912,500) to purchase Virginia and Nevada City properties in 1997. This major hit on the fund balance reduced the ability of the cultural trust to earn interest that is transferred to the C&A project account for arts projects.

**Figure 3
Arts Council
Percent Change Per Biennium - Expenditures & Funding**

Biennium	Fiscal 94-95	Fiscal 96-97	Biennial % Change	Fiscal 98-99	Biennial % Change	Fiscal 00-01	Biennial % Change	Fiscal 02-03	Biennial % Change
FTE	9.97	10.00	0.3%	8.00	-20.0%	7.00	-12.5%	7.00	0.0%
Personal Services	\$ 587,913	\$ 626,470	6.6%	\$ 567,820	-9.4%	\$ 567,033	-0.1%	\$ 647,788	14.2%
Operating Expenses	694,615	408,142	-41.2%	258,822	-36.6%	397,209	53.5%	405,113	2.0%
Equipment	1,520	2,300	51.3%	4,600	100.0%	-	-100.0%	16,500	-
Grants	677,051	606,478	-10.4%	738,040	21.7%	678,459	-8.1%	799,884	17.9%
Transfers	(1,270)	-	-100.0%	-	0.0%	-	0.0%	-	0.0%
Total Costs	\$ 1,959,829	\$ 1,643,390	-16.1%	\$ 1,569,282	-4.5%	\$ 1,642,701	4.7%	\$ 1,869,285	13.8%
General Fund	252,728	234,566	-7.2%	456,058	94.4%	537,718	17.9%	636,040	18.3%
State/Other Special	534,840	334,206	-37.5%	238,369	-28.7%	261,839	9.8%	278,245	6.3%
Federal Special	1,202,261	1,074,618	-10.6%	874,855	-18.6%	843,144	-3.6%	955,000	13.3%
Proprietary	-	-	-	-	-	-	-	-	-
Total Funds	\$ 1,989,829	\$ 1,643,390	-17.4%	\$ 1,569,282	-4.5%	\$ 1,642,701	4.7%	\$ 1,869,285	13.8%
Total Fund % Change from 1995 Biennium		-17.4%		-21.1%		-17.4%		-6.1%	

**Arts Council
Historical Biennium Funding**

Funding Source	Fiscal 94-95	Percent of Total Funds	Fiscal 96-97	Percent of Total Funds	Fiscal 98-99	Percent of Total Funds	Fiscal 00-01	Percent of Total Funds	Fiscal 02-03	Percent of Total Funds
General Fund	\$ 252,728	12.7%	\$ 234,566	14.3%	\$ 456,058	29.1%	\$ 537,718	32.7%	\$ 636,040	34.0%
State/Other Special	534,840	26.9%	334,206	20.3%	238,369	15.2%	261,839	15.9%	278,245	14.9%
Federal Special	1,202,261	60.4%	1,074,618	65.4%	874,855	55.7%	843,144	51.3%	955,000	51.1%
Proprietary	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Total Funds	\$ 1,989,829	100.0%	\$ 1,643,390	100.0%	\$ 1,569,282	100.0%	\$ 1,642,701	100.0%	\$ 1,869,285	100.0%

The proposed 2005 biennium general fund level is near \$600,000, 28.6 percent of total funding. NEA funding has experienced slight increases over the last three years with the proposed 2005 biennium funding level at \$598,000 per year, just over 1994 actual expenditures of \$588,562.

The issue to consider is whether the legislature wants to support general fund spending through HB 2 and HB 9 at the level it has since the 1999 and 2001 biennia or reduce general fund expenditures through the following options:

Options:

- o Continue fiscal 2003 changes enacted during the 2002 Special Session and through the Governor's reductions into the next biennium. In response to the recent budget deficit the Governor reduced general fund appropriated through HB 9 (2001 legislative session) for C&A projects by \$25,000. Also, during the 2002 Special Session, the legislature approved a funding switch through HB 8 that replaced the remaining \$198,575 general fund for C&A projects with bed tax money. In addition the legislature, through HB 10, diverted \$203,000 in revenue flowing to the cultural and aesthetic trust fund to the general fund reducing interest income earned on the trust by approximately \$6,000. All of these actions were applied to fiscal 2003 only. The executive intends to propose legislation to continue the diversion of revenue flowing to the cultural and aesthetic trust fund. The legislature may also wish to continue the changes related to C&A projects. General fund support of C&A projects is proposed to continue at \$249,575 per year through additional legislation. This option would require legislation outside of HB 2 and coordination with the Long-Range Building Plan Subcommittee

LFD
ISSUE
(continued)

- Replace HB 2 general fund with bed tax money. MCA 22-1-101 establishes the Montana Art's Council "to provide opportunity for our young people to participate in the arts and to contribute to the great cultural heritage of our state and nation, and of the growing significance of the arts as an element which makes living and vacationing in Montana desirable to the people of other states". The Arts Council's 2001-2006 Strategic Plan contains objectives related to tourism including an increased emphasis on cultural tourism and creating statewide and national market visibility and business opportunities for Montana artists and organizations. Both statute and the council's plan justify the use of bed tax money as an appropriate funding source for this agency. This option would be best accomplished through a change in statute as bed tax funding is appropriated through the Department of Commerce. Refer to Volume 4, Section C-Natural Resources and Commerce under the Department of Commerce Montana Promotions Division for additional information and options regarding the bed tax
- Replace a portion of the general fund with private funding through such activities as fund raising efforts through an arts foundation, the specialty license plate program or a donation check off box on Montana tax forms
- Reduce general fund and not replace with other funding. This would impact services to local communities and schools, and could jeopardize federal funding if match was not obtained through private, local, or other state sources. All of the council's general fund is used to match federal or private grants

LFD
ISSUE

Continuation of the Percent for Art Program

The Percent-for-Art Act authorized by Title 22, Chapter 2, Part 4 of the Montana Codes Annotated (MCA) was established in 1983 to provide acquisition of works of art for state buildings. The statute requires that "all capital project appropriations by the legislature shall include, as part of the appropriation, an amount not to exceed one percent of the amount appropriated" for use by the Montana Arts Council for works of art and administration of the act.

Disbursements from the account have been about \$100,000 per year and the current fund balance is \$147,647. Recent projects funded through the program include art projects at the Billings Women's Prison, Columbia Falls Veteran's Home, Deer Lodge Prison, Pine Hills Youth Correctional Facility, Boulder Montana Developmental Center and MSU/Renne Library. The issue for legislative consideration is whether this program is still a priority of the legislature in light of the current budget deficit.

Options:

- Discontinuing the program
- Temporarily suspending the program through the next biennium or longer
- Utilizing the fund balance to offset general fund within the Montana Arts Council or another general fund program

Language Recommendations

The executive recommends the following language:

"All federal funds in item 1 are biennial appropriations."

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				52,894						51,705
Vacancy Savings				0						0
Inflation/Deflation				2,847						2,980
Fixed Costs				(8,770)						(24,435)
Total Statewide Present Law Adjustments				\$46,971						\$30,250
DP 1 - Rent Increase	0.00	176	255	176	607	0.00	181	263	181	625
DP 2 - Administrative Cost Adjustments	0.00	1,304	1,680	4,959	7,943	0.00	6,963	2,855	11,081	20,899
DP 3 - Federal Funds Increase	0.00	0	0	115,850	115,850	0.00	0	0	115,856	115,856
DP 7000 - Continue Art Pros Reduction	0.00	(27,103)	0	0	(27,103)	0.00	(27,103)	0	0	(27,103)
Total Other Present Law Adjustments				\$97,297						\$110,277
Grand Total All Present Law Adjustments				\$144,268						\$140,527

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Rent Increase - This present law adjustment would fund an increase in rented space at the city-county building of \$607 in fiscal 2004 and \$625 in fiscal 2005 per the agency's recently negotiated rent lease. The lease was negotiated with the City-County Administration by the Department of Administration. The increase is three percent per year for the next three years.

DP 2 - Administrative Cost Adjustments - The executive proposes this present law adjustment to reestablish per diem for the Council and for the Cultural & Aesthetic Projects Citizens' Advisory Panel and allow basic adjustments to professional services, legal fees, printing, in-state lodging, and a state and federal required strategic plan.

LFD COMMENT

General fund increases \$1,304 in fiscal 2004 and \$6,963 in fiscal 2005. Per diem is a zero based item and must be requested each biennium (\$11,525 total biennium increase). Professional services increase five percent per year for production of the newsletter (\$3,110 total biennium increase). A general increase in fiscal 2005 is for costs of developing the FY 2001-2006 Strategic Plan required by the federal and state government to support continuance of National Endowment for the Arts (NEA) funding (\$11,015 in fiscal 2005). The cost is based on 2000-2001 actual expenditures. The remaining increases are for legal fees, printing, postage and lodging (\$3,192 total biennium increase).

DP 3 - Federal Funds Increase - This proposal requests authority to spend federal NEA funds projected for fiscal 2004 and 2005 based on the current year NEA award. NEA allocates the increased funding for specific purposes including \$11,400 for artists in schools, \$40,000 to local communities for Challenge America purposes, and the balance to increase arts activities in underserved communities.

DP 7000 - Continue Art Pros Reduction - The executive proposes to continue reductions to professional development grants and the art pros consultant program. Professional development grants provide matching funds for Montanans to attend seminars, conferences, and workshops to further improve artistic quality, and community service in the arts. The

art pros consultant program allows artists and art administrators to seek advice for technical, administrative and marketing queries. This level would allow the program to continue in part. These reductions were part of the Governor's 17-7-140, MCA reductions and remaining funds allow a small portion of the program to continue.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 7002 - Reduction in the Arts Education Program										
01	0.00	(15,000)	0	0	(15,000)	0.00	(15,000)	0	0	(15,000)
DP 7003 - Eliminate Local Community Grants										
01	0.00	(16,120)	0	0	(16,120)	0.00	(16,120)	0	0	(16,120)
Total	0.00	(\$31,120)	\$0	\$0	(\$31,120)	0.00	(\$31,120)	\$0	\$0	(\$31,120)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7002 - Reduction in the Arts Education Program - The executive proposes to continue the prior Governor reductions of \$1,200 and further reduce funding for a total decrease of \$15,000 per year which would eliminate general fund support of the Arts Education Program.

LFD COMMENT

This program provides matching funds to schools and non-profit organizations to support artist residencies and other arts education projects. In fiscal 2002, the program served 40,500 children at 67 schools and the average grant was about \$1,200. The impact of this reduction is that matching funds of 17.6 percent for arts education projects would have to come from a local or private source rather than the state. The Governor's fiscal 2003 reductions reduced this program by eight percent. Local organizations can apply directly to NEA for federal grant funds. Competition is high, but last year 18 Montana organizations, including schools, received about \$282,000 in federal funds.

DP 7003 - Eliminate Local Community Grants - The executive proposes a \$16,120 per year reduction that would eliminate general fund support for grants to local communities.

LFD COMMENT

This proposal will eliminate general fund to local communities provided primarily for touring fee support. In fiscal 2002, approximately 63,000 Montanans in 66 communities were served, and the average grant amount for the six non-profit organizations funded for touring fee support was \$2,160. As in the DP above, local organizations can apply directly to NEA for federal grant funds. Competition is high, but last year 18 Montana organizations received about \$282,000 in federal funds.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	30.50	0.00	(2.00)	28.50	0.00	(2.00)	28.50	28.50
Personal Services	1,357,627	(61,895)	(53,162)	1,242,570	(63,304)	(53,070)	1,241,253	2,483,823
Operating Expenses	1,023,664	(68,952)	281,500	1,236,212	(72,692)	281,500	1,232,472	2,468,684
Equipment	157,511	0	(75,928)	81,583	0	(75,928)	81,583	163,166
Grants	838,282	742,073	(224,582)	1,355,773	40,935	(228,355)	650,862	2,006,635
Transfers	0	0	500,000	500,000	0	0	0	500,000
Total Costs	\$3,377,084	\$611,226	\$427,828	\$4,416,138	(\$95,061)	(\$75,853)	\$3,206,170	\$7,622,308
General Fund	1,774,096	286,504	(164,971)	1,895,629	30,559	(164,879)	1,639,776	3,535,405
State/Other Special	666,421	30,595	117,799	814,815	30,253	89,026	785,700	1,600,515
Federal Special	936,567	294,127	475,000	1,705,694	(155,873)	0	780,694	2,486,388
Total Funds	\$3,377,084	\$611,226	\$427,828	\$4,416,138	(\$95,061)	(\$75,853)	\$3,206,170	\$7,622,308

Agency Description

The Library Commission authorized in Section 22-1-101, MCA, provides assistance and advice to all tax-supported libraries and local governments wishing to establish or improve libraries. The Library Commission administers state and federal library funding, operates and maintains the State Library and Natural Resources Information System, oversees the six library federations, and develops library oriented statewide long-range planning, policy, and service coordination.

Reorganization

The Library Commission approved a merger of the Library and Information Services Department (LISD) and the Natural Resources Information System (NRIS). LISD provides a single point of access to all state agency publications, among other things; NRIS disseminates information on Montana's land, water, and biological resources and is the primary source in Montana for geo-spatial information. These two functions will be combined through the proposed reorganization and most library resources will be provided in digital format, maintained through an integrated system, and supported by professional librarians and information specialists. A small collection of hard copy books will be maintained at the Library, while additional hard copies can be borrowed from other libraries through the interlibrary loan program. The Library has convened a committee that is in the early visioning and goal setting stage and will identify where reductions will be taken. Therefore, it is too early to determine the overall impact the reorganization will have on users. Cost savings of about \$132,400 each year is a result of eliminating materials not needed under the new digital library role and reducing the number of staff required to support the library's former paper-based collection by 2.00 FTE.

Executive Recommended Legislation

Revise the distribution of coal severance tax proceeds - The executive is proposing to change the distribution of coal severance tax interest earnings to the coal severance tax shared state special revenue account from 7.75 percent to 4.18 percent. Refer to Volume 4, Section C-Natural Resources and Commerce under the Department of Commerce for further information. Impacts to the Library Commission as a result of this proposal are included as a new proposal.

Agency Discussion

State Library Commission Major Budget Highlights
○ Total funding increases \$752,772 in the 2005 biennium due to increases in state special and federal revenue ○ Budget balancing reductions are in: ○ A reduction in general fund for reimbursements for interlibrary loans ○ Library federation support and materials budget due to a proposed revision in distribution of coal severance tax revenues ○ The executive proposes continuing biennium funding of \$400,000 plus a \$38,000 inflation increase for the periodical database
Major LFD Issue
○ General fund support for the periodical database

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
Statewide Library Resources	\$ 3,535,405	\$ 1,600,515	\$ 2,486,388	\$ 7,622,308	100.0%
Natural Resource Info System	-	-	-	-	-
Grand Total	\$ 3,535,405	\$ 1,600,515	\$ 2,486,388	\$ 7,622,308	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	30.50	(2.00)	28.50	30.50	(2.00)	28.50	30.50	28.50
Personal Services	1,295,732	(53,162)	1,242,570	1,294,323	(53,070)	1,241,253	2,645,871	2,483,823
Operating Expenses	954,712	281,500	1,236,212	950,972	281,500	1,232,472	1,979,120	2,468,684
Equipment	157,511	(75,928)	81,583	157,511	(75,928)	81,583	315,034	163,166
Grants	1,580,355	(224,582)	1,355,773	879,217	(228,355)	650,862	1,929,511	2,006,635
Transfers	0	500,000	500,000	0	0	0	0	500,000
Total Costs	\$3,988,310	\$427,828	\$4,416,138	\$3,282,023	(\$75,853)	\$3,206,170	\$6,869,536	\$7,622,308
General Fund	2,060,600	(164,971)	1,895,629	1,804,655	(164,879)	1,639,776	3,569,077	3,535,405
State/Other Special	697,016	117,799	814,815	696,674	89,026	785,700	1,289,066	1,600,515
Federal Special	1,230,694	475,000	1,705,694	780,694	0	780,694	2,011,393	2,486,388
Total Funds	\$3,988,310	\$427,828	\$4,416,138	\$3,282,023	(\$75,853)	\$3,206,170	\$6,869,536	\$7,622,308

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Restore OTO for Periodical E-Database										
01	0.00	90,337	128,663	0	219,000	0.00	90,337	128,663	0	219,000
DP 5 - NRIS Reorganization (Prg 7 to Prg 1)										
01	6.00	104,900	687,400	505,000	1,297,300	6.00	104,780	661,717	30,000	796,497
DP 5 - NRIS/LISD Reorganization										
07	(6.00)	(100,387)	(546,913)	(30,000)	(677,300)	(6.00)	(100,267)	(546,230)	(30,000)	(676,497)
DP 7006 - Reduce Reimbursements for Loans										
01	0.00	(127,365)	0	0	(127,365)	0.00	(127,365)	0	0	(127,365)
DP 7007 - NRIS/LISD Reorganization Cost Savings										
01	(2.00)	(132,456)	0	0	(132,456)	(2.00)	(132,364)	0	0	(132,364)
DP 7008 - Coal Tax Shared Account Reduction										
01	0.00	0	(151,351)	0	(151,351)	0.00	0	(155,124)	0	(155,124)
Total	(2.00)	(\$164,971)	\$117,799	\$475,000	\$427,828	(2.00)	(\$164,879)	\$89,026	\$0	(\$75,853)

Language Recommendations

The executive proposes the following language:

"Item 1 includes biennial appropriations of \$251,138 in general fund money and \$850,000 in federal funds for grants to local libraries."

"Item 2b includes \$500,000 for legislative contract authority as a biennial appropriation, subject to the following provisions:

- (1) Legislative contract authority applies only to state special revenue funds received from the Montana university system, federal funds, and private funds.
- (2) Legislative contract authority expenditures must be reported on the state accounting system. The records must be separate from present law operations. In preparing the 2007 biennium budget for legislative consideration, the office of budget and program planning may not include the expenditures from this item in the present law base.
- (3) A report must be submitted by the state library commission to the legislative fiscal division following the end of each fiscal year of the biennium. The report must include a listing of projects with the related amount of expenditures for each project.
- (4) Legislative contract authority may be transferred between state and federal special revenue, depending upon the contract received by the Montana state library."

LFD COMMENT

Similar language was included in HB 2 by the 2001 legislature.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	24.50	0.00	4.00	28.50	0.00	4.00	28.50	28.50
Personal Services	1,084,425	(122,904)	281,049	1,242,570	(123,445)	280,273	1,241,253	2,483,823
Operating Expenses	704,647	(69,883)	601,448	1,236,212	(73,688)	601,513	1,232,472	2,468,684
Equipment	134,370	0	(52,787)	81,583	0	(52,787)	81,583	163,166
Grants	838,282	742,073	(224,582)	1,355,773	40,935	(228,355)	650,862	2,006,635
Transfers	0	0	500,000	500,000	0	0	0	500,000
Total Costs	\$2,761,724	\$549,286	\$1,105,128	\$4,416,138	(\$156,198)	\$600,644	\$3,206,170	\$7,622,308
General Fund	1,687,655	272,558	(64,584)	1,895,629	16,733	(64,612)	1,639,776	3,535,405
State/Other Special	167,502	(17,399)	664,712	814,815	(17,058)	635,256	785,700	1,600,515
Federal Special	906,567	294,127	505,000	1,705,694	(155,873)	30,000	780,694	2,486,388
Total Funds	\$2,761,724	\$549,286	\$1,105,128	\$4,416,138	(\$156,198)	\$600,644	\$3,206,170	\$7,622,308

Program Description

The State Library Operations Program provides information, referral, and consultation services to state government and all tax funded libraries in the state; direct library service to blind and physically handicapped Montana residents; and direction to the six library federations. This program also administers the state documents depository system, functions as a partial depository for federal government publications, and coordinates the development of information resources and library information systems throughout the state. The program also manages the budgetary, personnel, and administrative functions of the State Library.

Program Narrative

State Library Operations Major Budget Highlights
- Reductions to funding for the interlibrary loan reimbursement program and elimination of federation grants impact local libraries - Total funding increases are primarily attributed to the transfer of NRIS funding and FTE into this program. However, the reorganization provides an agency-wide general fund savings of \$132,400 each year and reduces agency staff by 2.00 FTE - Other increases include continuing funding for the periodical database and library commission per diem, and providing authority for federal and state base grants to local communities at the same level provided during the 2003 biennium
Major LFD Issue
General fund support for periodical database

Program Reorganization

The Library Commission approved an agency reorganization that will merge Program 07-Natural Resource Information System (NRIS), operations, funding, and staff with the Library Information Services Division (LISD) funded through this program. The purpose of the reorganization is to create an integrated information department at the Montana State Library (MSL) with a focus on providing digital information. The reorganization will reduce the number of library staff that support its former paper-based collection and services by 2.00 FTE, and provide a cost savings of about \$132,400 each year by eliminating materials not needed under its new digital library role.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Statewide Library Resources						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,687,655	61.1%	\$ 1,895,629	42.9%	\$ 1,639,776	51.1%
02005 Operating-Other State Special	775	0.0%	775	0.0%	775	0.0%
02026 Nris State Special	-	-	278,570	6.3%	253,570	7.9%
02272 Renewable Resources Grnt/Loans	-	-	207,650	4.7%	207,460	6.5%
02340 Coal Sev. Tax Shared Ssr	166,727	6.0%	144,038	3.3%	140,265	4.4%
02458 Reclamation & Development	-	-	183,782	4.2%	183,630	5.7%
03018 Library Commission	906,567	32.8%	1,200,694	27.2%	750,694	23.4%
03930 Nris Federal Funds	-	-	505,000	11.4%	30,000	0.9%
Grand Total	\$ 2,761,724	100.0%	\$ 4,416,138	100.0%	\$ 3,206,170	100.0%

The program is funded with a combination of general fund, state special revenue from coal tax and donations, and federal special revenue from federal Library Service Technology Act (LSTA) grants.

General fund supports the interlibrary loan reimbursement program, state aid to libraries throughout Montana, base grants to the six federations, and general operations. It has also supported the periodical database during the last two biennia.

State special revenue is from coal tax interest earnings which funds general operations, materials and on-line books, and library federation grants that help local libraries provide basic services and from renewable resources and reclamation and development trust accounts and from the departments of Fish, Wildlife and Parks, Transportation, and Environmental Quality which fund NRIS. Federal LSTA funding provides grants to Montana libraries and supports state library operations, other federal funds are from contracts NRIS receives for specific services to federal agencies.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					(68,207)					(69,123)
Vacancy Savings					(40,649)					(40,615)
Inflation/Deflation					1,300					2,500
Fixed Costs					51,590					46,585
Total Statewide Present Law Adjustments					(\$55,966)					(\$60,653)
DP 4 - Standard Base Adjustments										
	0.00	140,105	(775)	483,320	622,650	0.00	(111,033)	(775)	33,320	(78,488)
DP 7009 - Reduce Expenses in the RiT Accounts -NRIS										
	0.00	0	(17,398)	0	(17,398)	0.00	0	(17,057)	0	(17,057)
Total Other Present Law Adjustments										
	0.00	\$140,105	(\$18,173)	\$483,320	\$605,252	0.00	(\$111,033)	(\$17,832)	\$33,320	(\$95,545)
Grand Total All Present Law Adjustments					\$549,286					(\$156,198)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 4 - Standard Base Adjustments - This decision package re-establishes zero-based per diem for the Library Commission, increases federal authority to the estimated grant awards realigns the biennial appropriation related to state aid, and re-establishes talking books base expenses that are coded into statewide fixed cost categories.

LFD COMMENT

Federal LSTA grant funds, administered by the Library Commission, can be spent over three state fiscal years (two federal fiscal years). Therefore, this adjustment provides authority for the estimated carryover balance of grant funds awarded in fiscal year 2002 and 2003, along with the estimated grant funding in the next biennium. The funds awarded to Montana are used for State Library programs, such as the Talking Book Library and the Library Development Department; for statewide projects such as the Montana Library Network; and for a variety of local or regional library projects that may be selected through a competitive process. Federal reauthorization efforts are currently underway and anticipated to be completed in early 2003. The outlook for Montana is that funding will continue at the current level of \$724,000.

The remaining component of this proposal includes a \$104,900 general fund base adjustment consisting of minimal adjustments for commission per diem and the talking books program, with the majority providing full funding of the state aid biennial appropriation. Actual expenditures in the fiscal 2002 base year were \$115,488 of the \$251,138 appropriated for the biennium resulting in base adjustments of \$135,650 and -\$115,488 in each year of the 2005 biennium.

DP 7009 - Reduce Expenses in the RIT Accounts -NRIS - Funds are requested to alleviate an initially projected negative balance in the renewable resources and reclamation and development accounts.

LFD COMMENT

The funding source for this proposal is state special revenue from the renewable resource grant and loan account and the reclamation and development grant account. These funds support NRIS operations and grants. Based on activities funded throughout all state agencies, a revenue shortfall is anticipated in these accounts. Refer to the RIT discussion in "Section C-Natural Resources and Commerce under the Department of Natural Resources and Conservation" for details regarding the revenue status. Impacts will be absorbed through additional vacancy savings. This is a short-term solution to the declining revenue issue as personal services are funded based on the snapshot done each biennium making the reduction one-time in nature. Therefore, if the revenue trend continues in future biennia, the problem will need to be addressed through new decision packages.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 1 - Restore OTO for Periodical E-Database										
01	0.00	90,337	128,663	0	219,000	0.00	90,337	128,663	0	219,000
DP 5 - NRIS Reorganization (Prg 7 to Prg 1)										
01	6.00	104,900	687,400	505,000	1,297,300	6.00	104,780	661,717	30,000	796,497
DP 7006 - Reduce Reimbursements for Loans										
01	0.00	(127,365)	0	0	(127,365)	0.00	(127,365)	0	0	(127,365)
DP 7007 - NRIS/LISD Reorganization Cost Savings										
01	(2.00)	(132,456)	0	0	(132,456)	(2.00)	(132,364)	0	0	(132,364)
DP 7008 - Coal Tax Shared Account Reduction										
01	0.00	0	(151,351)	0	(151,351)	0.00	0	(155,124)	0	(155,124)
Total	4.00	(\$64,584)	\$664,712	\$505,000	\$1,105,128	4.00	(\$64,612)	\$635,256	\$30,000	\$600,644

New Proposals
The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1 - Restore OTO for Periodical E-Database - First funded by the Fifty-fifth Legislature, the project allows libraries to subscribe to an extensive magazine database. The database includes full-text articles from 5,812 magazines and journals in all subject fields, including health and business. The business source provides information on companies, markets and

industries, market trends, mergers and acquisitions, current management theory, and company overviews.

The Periodical Database is funded with \$90,337 of general fund and \$128,663 of coal severance tax annually.

**LFD
ISSUE****General Fund Support for Periodical Database**

The issue the legislature may want to consider is how much state support this project should receive based on the agency mission and state and local benefits of the project. The mission of the Montana State Library is to help all citizens receive the information services that they need to improve or enhance their lives. MCA 22-1-103(7) allows the Library Commission to furnish library assistance and information services to "residents of those parts of the state inadequately serviced by libraries". Also, legislative policy is to encourage the most efficient delivery of library services to the people of Montana (22-1-401, MCA). This project provides a financial benefit to local libraries along with the benefit of developing business and job skills of Montana citizens through this information resource. Performance measures indicate that 289 Montana libraries are connected to the database and the number of user searches doubled to almost 647,000 between 2000 and 2001.

This proposal was initially funded as a pilot project with the expectation that the executive would evaluate the program to determine whether it merited continuation. The legislature appropriated \$400,000 in each of the last two biennia, with a 50/50 split between general fund and state special revenue in the first biennium. The general fund proportion was reduced to 41.3 percent last biennium. The executive proposes a \$38,000 or 9.5 percent inflationary increase for the 2005 biennium and continuing the current funding split of 41.3 percent general fund and 58.7 percent coal severance tax.

Local libraries experience a significant financial benefit of a single-point-user license purchased through the state. They contributed \$106,155, or about 21.0 percent toward the service in past biennia. The executive proposal would result in the same 21.0 percent, local share with a slight dollar increase of \$10,085 due to inflation. Based on a \$475 average cost of a periodical published in the US, it would cost an individual library about \$2,749,000 annually to subscribe to all the periodicals available through this product. Therefore, local libraries would still benefit significantly if more of the cost were shifted from the state to the local libraries.

Federal LSTA funds have not been used for this project, but could with approval of the Library Commission. LSTA funds can be used to "develop library networks to share library information resources across institutional, local and state boundaries, and to reach those for whom library use requires extra effort or special materials". The Library Commission submits a five-year plan to the federal government regarding intended use of these funds. The current plan was approved in 2002 and contains goals and LSTA funding justification that could support the use of these funds for the periodical database. The most applicable goal is as follows.

"Goal: Citizens & Students have easy access to and use multiple electronic information resources through their libraries.

LSTA Purpose: Assisting libraries in accessing information through electronic networks, and linking libraries electronically with education, social and information services."

LFD
ISSUE
(continued)

Options:

- Reduce general fund. The Library Commission could redirect some of the federal LSTA funds for grants to this purpose or require local libraries to pay a higher cost for the service. Replacing general fund with LSTA funds would provide a \$180,675 cost savings to the state. However, federal funding is expected to continue at the current level so this option would reduce the amount of federal funding available for grants. Currently, local libraries support approximately 21 percent of the periodical cost. Increasing the local share to 50 percent would provide a cost savings to the state of \$160,880, 30 percent would provide a \$50,032 cost savings.
- Approve the executive proposed funding level.

Figure 1

State Library Commission Periodical Database Historical Biennium Appropriations and Funding Scenarios										
Funding Source	HISTORICAL FUNDING LEVELS		EXECUTIVE PROPOSAL	Percent of Total	FUNDING SCENARIOS					
	2001 Biennium	2003 Biennium	2005 Biennium		Scenario 1 Replace GF w/ Fed	Percent of Total	Scenario 2 50/50 state/local	Percent of Total	Scenario 3 70/30 state/local	Percent of Total
General Fund	\$ 200,000	\$ 165,000	\$ 180,675		\$ -		\$ 19,795		\$ 130,643	
Coal Severance Tax	200,000	235,000	257,325		257,325		257,325		257,325	
Sub-total State	400,000	400,000	438,000	79.03%	257,325	46.43%	277,120	50.00%	387,968	70.00%
Federal LSTA	-	-	-	-	180,675	32.60%	-		-	
Local Library Contribution	106,155	106,155	116,240	20.97%	116,240	20.97%	277,120	50.00%	166,272	30.00%
Total	\$ 506,155	\$ 506,155	\$ 554,240	100.00%	\$ 554,240	100.00%	\$ 554,240	100.00%	\$ 554,240	100.00%
General Fund Savings					\$ 180,675		\$ 160,880		\$ 50,032	

DP 5 - NRIS Reorganization (Prg 7 to Prg 1) - The Montana Library Commission approved a merger of the Library and Information Services Department and the Natural Resources Information System (NRIS). This merger will create an integrated information department at MSL with a focus on providing digital information.

LFD
COMMENT

Refer to the reorganization discussion under the agency summary for additional information.

DP 7006 - Reduce Reimbursements for Loans - The executive proposes a reduction in the interlibrary loan reimbursement program of \$127,365, as approved by the Montana State Library Commission. The program initially was funded at about \$300,000.

LFD
COMMENT

The Governor reduced this program by \$27,800, or 9.3 percent in fiscal 2003. This proposal continues the reduction, but at an increased level for a total reduction in funding of 42.6 percent in the 2005 biennium. Through this program each Montana library that willingly shares its resources with the patrons of other Montana libraries is eligible for reimbursement of a portion of the costs. The impact is that libraries will experience higher costs of loaning, as each interlibrary loan request will generate less reimbursement dollars. The 97 libraries that received reimbursements in fiscal 2002 would experience an average reduction of about \$1,300.

DP 7007 - NRIS/LISD Reorganization Cost Savings - By reorganizing NRIS into the LISD, the MSL Commission can achieve a general fund cost savings of \$132,456 and \$132,364 in fiscal 2004 and fiscal 2005 respectively. The MSL is eliminating 2.00 FTE, reducing operating by \$37,700 and library books by \$41,794 per year.

DP 7008 - Coal Tax Shared Account Reduction - The Executive Budget proposes to reduce the coal severance tax shared account from 7.75 percent to 4.18 percent for the 2005 biennium. The two areas that are targeted for reductions are library federation funding and the library's materials budget. Federation funding will be reduced by \$97,217 and \$100,990 in fiscal 2004 and fiscal 2005, respectively. The materials budget will be reduced by \$54,134 annually.

**LFD
COMMENT**

This proposal would change the distribution of coal severance tax interest earnings to the shared account from 7.75 percent to 4.18 percent. The 2001 legislature appropriated, annual coal severance tax funding of \$97,200 for federations, \$69,500 for materials and memberships, and \$117,500 for the periodical database. Reductions in 2003 by the Governor and legislature reduced federations by \$27,217 and materials and membership funding by \$42,783. The executive is proposing a further reduction that would result in the elimination of federation coal tax funding and leave \$15,700 in the materials budget. Federations would still receive annual base grants of \$82,000 general fund. This equates to \$1,000 per public library in each federation for their operating budget. MCA Title 22, Chapter 1, Part 4 allows state funds to be appropriated to the Library Commission to provide the benefits of quality public library service to all residents of Montana through library federations. Six library federations exist throughout the state serving public libraries and public school libraries in their region. Federations use state funds for training, grants, and materials in their regions.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	6.00	0.00	(6.00)	0.00	0.00	(6.00)	0.00	0.00
Personal Services	273,202	61,009	(334,211)	0	60,141	(333,343)	0	0
Operating Expenses	319,017	931	(319,948)	0	996	(320,013)	0	0
Equipment	23,141	0	(23,141)	0	0	(23,141)	0	0
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$615,360	\$61,940	(\$677,300)	\$0	\$61,137	(\$676,497)	\$0	\$0
General Fund	86,441	13,946	(100,387)	0	13,826	(100,267)	0	0
State/Other Special	498,919	47,994	(546,913)	0	47,311	(546,230)	0	0
Federal Special	30,000	0	(30,000)	0	0	(30,000)	0	0
Total Funds	\$615,360	\$61,940	(\$677,300)	\$0	\$61,137	(\$676,497)	\$0	\$0

Program Description

The Natural Resources Information Services Program (NRIS) manages the natural resources and related data for the state. To avoid expensive duplication, NRIS provides a standard system for the acquisition, storage, retrieval, and management of this data, and manages the state's Water Information System. The program also administers the Montana Natural Heritage Program, a database on rare or exemplary plants, animals, communities, and geological features.

Program Narrative

Natural Resource Information System	
Major Budget Highlights	
○ Total funding increases 10 percent over the fiscal 2002 base due to personal services and inflationary adjustments ○ The executive proposes transferring the program's 6.00 FTE and funding of approximately \$677,000 each year to State Library Operations due to an agency reorganization approved by the library commission	

Program Reorganization

The Library Commission approved an agency reorganization that will merge NRIS operations, funding and staff with the Library Information Services Division funded through program 01. The purpose of the reorganization is to create an integrated information department at the Montana State Library with a focus on providing digital information. The reorganization will reduce the number of library staff that support its former paper-based collection and services by 2.00 FTE, and provide a cost savings of about \$132,400 each year by eliminating materials not germane to its new digital library role. NRIS functions are expected to continue as they currently exist.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Natural Resource Info System				
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>
01100 General Fund	\$ 86,441	14.0%	\$ -	\$ -
02026 Nris State Special	160,162	26.0%	-	-
02272 Renewable Resources Gmt/Loans	179,698	29.2%	-	-
02458 Reclamation & Development	159,059	25.8%	-	-
03930 Nris Federal Funds	30,000	4.9%	-	-
Grand Total	<u>\$ 615,360</u>	<u>100.0%</u>	<u>-</u>	<u>-</u>

The program is funded with a combination of general fund, state special revenue from renewable resources and reclamation and development trust accounts and from the departments of Fish, Wildlife and Parks, Transportation, and Environmental Quality, and federal special revenue from contracts NRIS receives for specific services to federal agencies. Funding under the proposed reorganization is expected to continue at the current level. State contracts with other state agencies are maintained and included in individual agency base budgets.

Present Law Adjustments											
-----Fiscal 2004-----						-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services					74,896					74,031	
Vacancy Savings					(13,887)					(13,890)	
Inflation/Deflation					1,354					1,419	
Fixed Costs					(423)					(423)	
Total Statewide Present Law Adjustments					\$61,940						\$61,137
Grand Total All Present Law Adjustments					\$61,940						\$61,137

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 5 - NRIS/LISD Reorganization										
07	(6.00)	(100,387)	(546,913)	(30,000)	(677,300)	(6.00)	(100,267)	(546,230)	(30,000)	(676,497)
Total	(6.00)	(\$100,387)	(\$546,913)	(\$30,000)	(\$677,300)	(6.00)	(\$100,267)	(\$546,230)	(\$30,000)	(\$676,497)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 5 - NRIS/LISD Reorganization - The Montana Library Commission approved a merger of the Library and Information Services Department and the Natural Resources Information System (NRIS). This merger will create an integrated information department at MSL with a focus on providing digital information.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	57.63	0.35	(0.30)	57.68	0.35	(0.30)	57.68	57.68
Personal Services	2,214,608	146,047	(14,536)	2,346,119	149,984	(14,643)	2,349,949	4,696,068
Operating Expenses	1,196,718	23,602	114,881	1,335,201	13,570	114,882	1,325,170	2,660,371
Equipment	11,419	0	0	11,419	0	0	11,419	22,838
Grants	210,565	916	(22,629)	188,852	916	(22,575)	188,906	377,758
Transfers	53,652	(6,900)	0	46,752	(6,900)	0	46,752	93,504
Total Costs	\$3,686,962	\$163,665	\$77,716	\$3,928,343	\$157,570	\$77,664	\$3,922,196	\$7,850,539
General Fund	1,803,840	20,486	(72,958)	1,751,368	6,467	(73,010)	1,737,297	3,488,665
State/Other Special	426,471	13,862	100,000	540,333	17,845	100,000	544,316	1,084,649
Federal Special	683,747	56,810	0	740,557	57,655	0	741,402	1,481,959
Proprietary	772,904	72,507	50,674	896,085	75,603	50,674	899,181	1,795,266
Total Funds	\$3,686,962	\$163,665	\$77,716	\$3,928,343	\$157,570	\$77,664	\$3,922,196	\$7,850,539

Agency Description

The Montana Historical Society, authorized by Title 22-3-101, MCA, exists for the use, learning, culture, and enjoyment of the citizens of, and visitors to, the State of Montana. The society acquires, preserves, and protects historical records, art, archives, museum objects, historical places, sites, and monuments. The society maintains a library and a historical museum, provides educational programs and services for teachers and the general public, and publishes the state historical magazine and newsletter. The society also administers preservation and antiquities acts, supports commissions with state historical orientation, and provides technical assistance to all Montana museums, historical societies, preservation programs, and owners of historic resources.

Agency Discussion

Montana Historical Society Major Budget Highlights	
○ The total 2005 biennium budget is \$35,900 less than the total 2003 biennium budget ○ General fund decreases \$52,400 in fiscal 2004 and \$66,500 in fiscal 2005 from base year expenditures ○ General fund savings are a result of public service reductions, general operating reductions, funding switches that replace general fund with proprietary funding and accommodations tax, and 0.30 FTE reductions	
Major LFD Issues	
○ Museum fees ○ Publications Program funding	

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget						
Agency Program	General Fund	State Spec.	Fed.Spec.	Proprietary	Grand Total	Total %
Administration Program	\$ 1,746,342	\$ 369,469	\$ 188,000	\$ 203,408	\$ 2,507,219	31.9%
Museum Program	363,095	709,537	-	13,412	1,086,044	13.8%
Library Program	1,194,082	5,643	-	112,441	1,312,166	16.7%
Publications Program	93,504	-	-	1,466,005	1,559,509	19.9%
Historic Preservation Program	91,642	-	1,293,959	-	1,385,601	17.6%
Lewis & Clark Bicentennial	-	-	-	-	-	-
Grand Total	\$ 3,488,665	\$ 1,084,649	\$ 1,481,959	\$ 1,795,266	\$ 7,850,539	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	57.98	(0.30)	57.68	57.98	(0.30)	57.68	57.63	57.68
Personal Services	2,360,655	(14,536)	2,346,119	2,364,592	(14,643)	2,349,949	4,627,959	4,696,068
Operating Expenses	1,220,320	114,881	1,335,201	1,210,288	114,882	1,325,170	2,506,585	2,660,371
Equipment	11,419	0	11,419	11,419	0	11,419	21,496	22,838
Grants	211,481	(22,629)	188,852	211,481	(22,575)	188,906	623,235	377,758
Transfers	46,752	0	46,752	46,752	0	46,752	107,158	93,504
Total Costs	\$3,850,627	\$77,716	\$3,928,343	\$3,844,532	\$77,664	\$3,922,196	\$7,886,433	\$7,850,539
General Fund	1,824,326	(72,958)	1,751,368	1,810,307	(73,010)	1,737,297	3,645,083	3,488,665
State/Other Special	440,333	100,000	540,333	444,316	100,000	544,316	1,007,347	1,084,649
Federal Special	740,557	0	740,557	741,402	0	741,402	1,582,023	1,481,959
Proprietary	845,411	50,674	896,085	848,507	50,674	899,181	1,651,980	1,795,266
Total Funds	\$3,850,627	\$77,716	\$3,928,343	\$3,844,532	\$77,664	\$3,922,196	\$7,886,433	\$7,850,539

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7002 - Fund Switch for Overhead for MHC & LCBC										
01	0.00	(35,000)	0	0	15,674*	0.00	(35,000)	0	0	15,674*
DP 7002 - Reduction in Operating										
02	0.00	(793)	0	0	(793)	0.00	(792)	0	0	(792)
DP 7003 - Preservation Grant Reduction										
06	0.00	(22,629)	0	0	(22,629)	0.00	(22,575)	0	0	(22,575)
DP 7005 - FTE Reduction - Community Outreach										
01	(0.30)	(14,536)	0	0	(14,536)	(0.30)	(14,643)	0	0	(14,643)
DP 7009 - Lewis and Clark Interpretation										
03	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
Total	(0.30)	(\$72,958)	\$100,000	\$0	\$77,716*	(0.30)	(\$73,010)	\$100,000	\$0	\$77,664*

Language Recommendations

The executive recommends the following language:

"It is the intent of the legislature that the Department of Commerce use lodging facility use taxes to fund \$617,008 in fiscal year 2004 and \$621,017 in fiscal year 2005 for the Montana Historical Society. This would be expended as follows:

Historical Interpretation	\$196,857	\$193,627
Scriber Collection	120,151	127,390
Lewis and Clark Exhibit & Interpretation	100,000	100,000
Lewis and Clark Bicentennial Commission	200,000	200,000

The first three uses of lodging taxes are budgeted in items 1 and 3. The \$200,000 each fiscal year of the biennium for the Lewis and Clark Bicentennial Commission is a language appropriation."

LFD COMMENT

Similar language was approved by the 2001 legislature for different amounts. Refer to Volume 4, Section C - Natural Resources and Commerce under the Department of Commerce, Montana Promotion Division for issues and options regarding bed tax revenue.

Agency Issues

LFD ISSUE

Museum Fees

On February 15, 2002, the Montana Historical Society (MHS) joined several other historical societies throughout the nation and began charging fees at the State Historical Society Museum and the Original Governor's Mansion in Helena. This decision was made by the MHS Board of Trustees as a result of a public survey, which monitored public attitude and desires related to fees, along with quality of their museum experience. Survey results concluded that many visitors already anticipated paying a fee and would be willing to pay more than double what the society is now charging. The new fee was phased in with a recommended entrance donation initiated in October 2001 and full implementation of the fee in February 2002. The society set the fee schedule at \$3 for adults, \$1 for kids age 5 to 18, and \$8 for a family. This fee is minimal compared with other significant Montana museums, but average compared with other Western state historical museums. The society intended to use fee revenue for services that were not provided with previous revenues such as specialized guided tours, and to provide a revenue stream that could be used to assist with plans and designs to create more adequate storage, classroom, exhibit, work, and programming space for the society.

From June through October 2002 admissions generated about \$55,000. However, before fee implementation an average of \$15,700 per year was received from museum visitors through the lobby donation box. Less than \$1,300 in donations has been received in fiscal 2003. Therefore, the net gain in fee revenue is about \$40,600. In the first season of the newly implemented fee, the society noted that visitors were down which is usually the case during the first year or two when fees or charges are initiated. The society has not received many complaints regarding the fees and also believes that the economy following September 11th, general fear of traveling after that, and Helena road construction may also have affected adult visitation. Consequently, it may be too early to determine total impacts of the newly implemented fee.

\$15,000 of revenue generated from the fee was used in fiscal 2002 for fee program start-up costs that involved creating a new visitor and contact system and station, computer and cash register purchases, upgrading portions of the lobby, and revamping the membership program. An additional \$15,000 is budgeted in fiscal 2003 for ongoing operating costs and a seasonal fee collector. The society estimates the monthly costs of running the program at \$900 for an annual \$10,800 expense leaving approximately \$29,600 for other uses and that could be utilized to offset some of the \$180,000 annual general fund in the Museum Program. In addition, fees could be increased to generate additional revenue. An estimate of annual visitors' to the museums has been requested from the Society.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	14.50	0.00	(0.30)	14.20	0.00	(0.30)	14.20	14.20
Personal Services	631,424	36,477	(14,536)	653,365	37,472	(14,643)	654,253	1,307,618
Operating Expenses	489,499	102,515	15,674	607,688	86,740	15,674	591,913	1,199,601
Total Costs	\$1,120,923	\$138,992	\$1,138	\$1,261,053	\$124,212	\$1,031	\$1,246,166	\$2,507,219
General Fund	800,732	129,644	(49,536)	880,840	114,413	(49,643)	865,502	1,746,342
State/Other Special	184,030	501	0	184,531	908	0	184,938	369,469
Federal Special	92,075	1,925	0	94,000	1,925	0	94,000	188,000
Proprietary	44,086	6,922	50,674	101,682	6,966	50,674	101,726	203,408
Total Funds	\$1,120,923	\$138,992	\$1,138	\$1,261,053	\$124,212	\$1,031	\$1,246,166	\$2,507,219

Program Description

The Administration Program provides supervision, administration, and coordination of Montana Historical Society programs. Program staff manage, plan, direct, and lead the society. Activities include public information, payroll/personnel, fund raising, financial reporting, business management, security, building management, community outreach, historic research, historic interpretation, and administrative support to commissions with state historical orientation.

Program Narrative

Administration Program Major Budget Highlights	
o	New proposals provide a general fund savings of approximately \$50,000 each year by replacing general fund with proprietary funds and through a 0.30 FTE reduction

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Administration Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 800,732	71.4%	\$ 880,840	69.8%	\$ 865,502	69.5%
02007 Accommodation Tax His Soc	116,438	10.4%	114,140	9.1%	114,526	9.2%
02041 Mt Hist. Society Donations	67,592	6.0%	70,391	5.6%	70,412	5.7%
03021 Historic Sites Preservation	92,075	8.2%	94,000	7.5%	94,000	7.5%
06073 Historical Society Management	44,086	3.9%	101,682	8.1%	101,726	8.2%
Grand Total	<u>\$ 1,120,923</u>	<u>100.0%</u>	<u>\$ 1,261,053</u>	<u>100.0%</u>	<u>\$ 1,246,166</u>	<u>100.0%</u>

This program is funded with general fund, state special revenue funds from donations and accommodations tax, federal funds from administration of National Parks Service programs, and proprietary funds from charges to the Heritage Commission and Lewis and Clark Commission for services provided by the Montana Historical Society, museum entrance fees, and merchandise sales.

General fund is used for administrative and audit expenses. State special revenue from the accommodations tax funds the sites and signs program and Lewis and Clark Bicentennial efforts. Donations fund the annual history conference, education, special exhibits, the development program and some administrative costs. Federal National Park Service funds pay for indirect costs related to administering the federal grant.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					85,431					86,468
Vacancy Savings					(28,674)					(28,716)
Inflation/Deflation					2,610					2,677
Fixed Costs					117,038					101,870
Total Statewide Present Law Adjustments					\$176,405	\$162,299				
DP 7000 - Gov Reductions - Public Service										
	0.00	(36,413)	0	0	(36,413)	0.00	(36,413)	0	0	(36,413)
DP 7002 - Reduction in Operating										
	0.00	(1,000)	0	0	(1,000)	0.00	(1,674)	0	0	(1,674)
Total Other Present Law Adjustments										
	0.00	(\$37,413)	\$0	\$0	(\$37,413)	0.00	(\$38,087)	\$0	\$0	(\$38,087)
Grand Total All Present Law Adjustments					\$138,992	\$124,212				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7000 - Gov Reductions - Public Service - The executive proposes to continue the Governor's reductions consisting of limiting contact with the society's governing board; downsizing phone systems; reducing technology; limiting memberships in affiliated organizations; limiting newsletter and/or web services for members and constituents; limiting reference services for constituents offered by phone, travel, and workshops; and reducing conservation of artifacts.

LFD COMMENT

This adjustment reduces personal services by \$20,280 per year and operating expenses by \$16,133 per year. Total reduction is \$36,413 each year. Fiscal 2002 expenditures in each of the accounts for printing/publications/graphics, office supplies/minor equipment, minor equipment-computer hardware, and meetings and conferences were about \$8,000 to \$10,000 more than previous years. Expenditures consistent with previous years in these accounts during the next biennium could offset most of the impacts of this reduction.

Fiscal 2003 impacts include reducing information and security staff from three employees to two during peak summer hours, eliminating three of the lesser-used phones, eliminating historical society professional membership to the American Association of Museums, and reducing Lewis & Clark technical assistance materials, special mailings, and workshops.

DP 7002 - Reduction in Operating - This decision package is an additional reduction in operating expenses for the Administration Program to meet the Governor's target that will include further cuts in travel, printing and contract services, and a reduction in the hours that the museum and library will be open to the public.

LFD COMMENT

This adjustment combined with the prior public service adjustment is a decrease of 3.4 percent from fiscal 2002 actual operating expenditures.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General	State Special	Federal Special	Total Funds	General	State Special	Federal Special	Total Funds	
DP 7002 - Fund Switch for Overhead for MHC & LCBC										
01	0.00	(35,000)	0	0	15,674 *	0.00	(35,000)	0	0	15,674 *
DP 7005 - FTE Reduction - Community Outreach										
01	(0.30)	(14,536)	0	0	(14,536)	(0.30)	(14,643)	0	0	(14,643)
Total	(0.30)	(\$49,536)	\$0	\$0	\$1,138 *	(0.30)	(\$49,643)	\$0	\$0	\$1,031 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7002 - Fund Switch for Overhead for MHC & LCBC - This fund switch redirects Administration Program costs from general fund to proprietary for anticipated overhead revenues from a 6 percent assessment in fiscal 2004 and a 7.5 percent assessment in fiscal 2005 to the Montana Heritage Commission and the Lewis and Clark Bicentennial Commission. Items to be funded with the overhead include legislatively required annual reports, society informational brochures, phone and computer lines, and fixed costs.

The new rates will increase proprietary revenue by \$15,674 annually and include increased internal support for both attached commissions.

LFD COMMENT

The Montana Heritage Commission and Lewis and Clark Bicentennial Commission are administratively attached to the society. The 2003 legislature approved a 10 percent assessment against the commissions' operating budgets to reimburse the society for administrative and professional assistance provided by staff to the commissions. The commissions approved a 3 percent assessment during the 2003 biennium. This adjustment increases the assessment to 6 percent in fiscal 2004 and 7.5 percent in fiscal 2005. The additional funds will offset about \$35,000 general fund within the Administration Program.

DP 7005 - FTE Reduction - Community Outreach - This reduction eliminates a 0.30 FTE community outreach position. This cut reduces statewide outreach, including web based activities, special educational projects, and special joint programs.

LFD COMMENT

This proposal reduces a vacant position leaving 0.20 FTE. Half of the authority for this position was transferred to Program 6-Historical Sites Preservation Program during fiscal 2002 and is reflected in Program 6 for the 2005 biennium. The remaining funding for 0.20 FTE will offset continued Governor reductions to personal services under DP 7000 by about \$6,600 per year.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	13.75	0.00	0.00	13.75	0.00	0.00	13.75	13.75
Personal Services	523,640	18,418	0	542,058	18,229	0	541,869	1,083,927
Operating Expenses	114,473	(11,067)	(793)	102,613	(10,893)	(792)	102,788	205,401
Equipment	11,419	0	0	11,419	0	0	11,419	22,838
Total Costs	\$649,532	\$7,351	(\$793)	\$656,090	\$7,336	(\$792)	\$656,076	\$1,312,166
General Fund	595,418	2,447	(793)	597,072	2,384	(792)	597,010	1,194,082
State/Other Special	2,808	11	0	2,819	16	0	2,824	5,643
Federal Special	0	0	0	0	0	0	0	0
Proprietary	51,306	4,893	0	56,199	4,936	0	56,242	112,441
Total Funds	\$649,532	\$7,351	(\$793)	\$656,090	\$7,336	(\$792)	\$656,076	\$1,312,166

Program Description

The Library Program staff provide library and archive functions. They acquire, organize, preserve, and provide published materials to the public including historic records, manuscripts, photographs, and oral histories of Montana and the west. This program houses the official archives of state government and the legislature.

Program Narrative

Library Program Major Budget Highlights	
○	Total funding is proposed at approximately the same level as fiscal 2002 expenditures
○	Proposed vacancy savings and reduced fixed costs and operating expenses offset present law increases for personal services

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Library Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 595,418	91.7%	\$ 597,072	91.0%	\$ 597,010	91.0%
02041 Mt Hist. Society Donations	2,808	0.4%	2,819	0.4%	2,824	0.4%
06072 Enterprise Historical Soc	51,306	7.9%	56,199	8.6%	56,242	8.6%
Grand Total	\$ 649,532	100.0%	\$ 656,090	100.0%	\$ 656,076	100.0%

The program is funded with a combination of general fund, state special revenue funds, and proprietary funds from the sale of photographs and photocopies.

Present Law Adjustments											
-----Fiscal 2004-----						-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services					69,899						69,705
Vacancy Savings					(23,741)						(23,736)
Inflation/Deflation					1,936						2,016
Fixed Costs					(5,353)						(5,259)
Total Statewide Present Law Adjustments					\$42,741						\$42,726
DP 7000 - Gov. Reduction - Public Service	0.00	(35,390)	0	0	(35,390)	0.00	(35,390)	0	0		(35,390)
Total Other Present Law Adjustments	0.00	(\$35,390)	\$0	\$0	(\$35,390)	0.00	(\$35,390)	\$0	\$0		(\$35,390)
Grand Total All Present Law Adjustments					\$7,351						\$7,336

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7000 - Gov. Reduction - Public Service - The executive proposes to continue the fiscal 2003 Governor reductions including limiting the processing of incoming materials (books, archival documents, maps, newspapers, photographs) throughout the Library-Archives program; 2) reduction of materials conservation work; 3) and limiting reference services offered to Montana researchers in all program areas (in person and by phone and email).

LFD COMMENT

This proposal continues the fiscal 2003 Governor reduction of \$27,740 to personal services and an additional \$7,650 reduction in operating expenses. As a result of this reduction, the society has closed the Library -Archives reference room during the noon hour, and will forego library book purchases in fiscal 2003. However, \$11,314 was expended on books in the base year and is carried forward to the 2005 biennium. In addition, processing of state agency records will be reduced by an estimated 140 lineal feet of the 500 to 600 lineal feet acquired each year. Responses to reference requests will decrease by an estimated 750 requests of the 24,000 to 25,000 requests received each year.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7002 - Reduction in Operating										
02	0.00	(793)	0	0	(793)	0.00	(792)	0	0	(792)
Total	0.00	(\$793)	\$0	\$0	(\$793)*	0.00	(\$792)	\$0	\$0	(\$792)*

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7002 - Reduction in Operating - The executive proposes an additional reduction in operating expenses for the Library Program to meet the Governor's target.

LFD COMMENT

This proposal further reduces operating expenses by \$793 and \$792 in each year of the 2005 biennium for a total reduction of about 25 percent of fiscal 2002 operating expenditures.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	9.50	0.35	0.00	9.85	0.35	0.00	9.85	9.85
Personal Services	350,233	(15,363)	0	334,870	(14,612)	0	335,621	670,491
Operating Expenses	186,069	(79,855)	100,000	206,214	(76,730)	100,000	209,339	415,553
Total Costs	\$536,302	(\$95,218)	\$100,000	\$541,084	(\$91,342)	\$100,000	\$544,960	\$1,086,044
General Fund	289,129	(107,728)	0	181,401	(107,435)	0	181,694	363,095
State/Other Special	240,549	12,434	100,000	352,983	16,005	100,000	356,554	709,537
Federal Special	0	0	0	0	0	0	0	0
Proprietary	6,624	76	0	6,700	88	0	6,712	13,412
Total Funds	\$536,302	(\$95,218)	\$100,000	\$541,084	(\$91,342)	\$100,000	\$544,960	\$1,086,044

Program Description

The Museum Program collects, preserves, and interprets the history of Montana through its material culture. The museum collects fine arts and historical, archaeological, and ethnological artifacts from Montana and the general geographic region. The program interprets its collections through exhibits, tours and traveling exhibits. The program also houses the society's education office that orchestrates events, programs, and materials on Montana history for learners of all ages.

Program Narrative

Museum Program Major Budget Highlights	
○ Total funding increases slightly over fiscal 2002 expenditures ○ General fund savings are attributed to public service reductions ○ Additional increases to accommodations tax funding support the addition of 0.35 FTE to conduct tours at the Governor's Original Mansion and the Capitol, increased rent costs for storage of the Scriver collection, and to begin development of a new long-term Lewis and Clark exhibit	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Museum Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 289,129	53.9%	\$ 181,401	33.5%	\$ 181,694	33.3%
02007 Accommodation Tax His Soc	192,659	35.9%	302,868	56.0%	306,441	56.2%
02041 Mt Hist. Society Donations	47,062	8.8%	49,283	9.1%	49,280	9.0%
02045 Orig Gov'S Mansion Restoration	828	0.2%	832	0.2%	833	0.2%
06072 Enterprise Historical Soc	6,624	1.2%	6,700	1.2%	6,712	1.2%
Grand Total	<u>\$ 536,302</u>	<u>100.0%</u>	<u>\$ 541,084</u>	<u>100.0%</u>	<u>\$ 544,960</u>	<u>100.0%</u>

The program is funded with a combination of general fund, state special revenue funds including donations and accommodations tax, and proprietary funds from the sales of books, copies and photographs, and rental of traveling exhibits.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					43,590					44,397
Vacancy Savings					(15,754)					(15,785)
Inflation/Deflation					1,195					1,242
Fixed Costs					(22,898)					(22,470)
Total Statewide Present Law Adjustments					\$6,133	\$7,384				
DP 10 - Scriver Collections Storage Rent	0.00	0	2,880	0	2,880	0.00	0	5,846	0	5,846
DP 14 - Correct Expenditure Coding - Scriver Rent	0.00	0	17,493	0	17,493	0.00	0	17,493	0	17,493
DP 15 - Historical Interpretation FTE	0.35	0	5,680	0	5,680	0.35	0	5,789	0	5,789
DP 7000 - Public Service Reductions	0.00	(127,404)	0	0	(127,404)	0.00	(127,854)	0	0	(127,854)
Total Other Present Law Adjustments	0.35	(\$127,404)	\$26,053	\$0	(\$101,351)	0.35	(\$127,854)	\$29,128	\$0	(\$98,726)
Grand Total All Present Law Adjustments					(\$95,218)	(\$91,342)				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 10 - Scriver Collections Storage Rent - This is a non-general fund request for \$8,726 (\$2,880 in fiscal 2004 and \$5,846 in fiscal 2005) in rent for the Scriver collection storage to pay a negotiated, long-term 20-year lease with a three percent annual increase including utility costs.

LFD
COMMENT

This proposal would fund a three percent annual increase in rental storage space for the Scriver collection to be funded with accommodations tax as approved by the 2001 legislature. The \$15 million Scriver collection, consisting of 3,500 pieces of art, sculptures, taxidermy, guns, artifacts, photos, books and other western memorabilia, was donated to the society in March 2000. The society was required to move the collection from Browning to Helena by July 1, 2000. Rental warehouse space was secured through an annual lease agreement to store the collection. The latest lease expired in May 2002 and the society, through assistance of the Department of Administration General Services Division, entered a more cost effective, 20-year lease agreement at a different facility for the same price in March 2002. The previous lease agreement was on a year-to-year basis, while costs increased five percent per year and required the state to pay 50 percent of the utilities. In addition, the original warehouse was a 100-year old structure with internal inadequacies.

To date, the Society has created and hosted two Scriver Exhibits: "A Legacy in Bronze: The Sculpture of Robert M. Scriver" and "An Honest Try" which exhibit Scriver's rodeo series. In addition, the Scriver Collection was acquired in conjunction with two other partners: the Provincial Museum of Alberta and the Rocky Mountain Elk Foundation, with the understanding that all partners would have access to the collection for long-term loans and creation of appropriate thematic exhibits.

**LFD
COMMENT
(continued)**

The Scriver Center located in Helena at the storage warehouse was constructed by the Montana History Foundation, in partnership with other area organizations, as an "open storage" facility-a specific term in the museum field. The society now leases that space. The space permits visitors to see artifacts in a setting secure to the holdings and to see museum staff working with the collection. The Foundation has outstanding grant applications for sufficient funding to finish the visitor area of the Scriver Center. When the Foundation secures funds for completion, the society will invite visitation and charge admission to that area.

DP 14 - Correct Expenditure Coding - Scriver Rent - This is a non-general fund request to continue \$34,986 rent expenditures (\$17,493 in fiscal 2004 and \$17,493 in fiscal 2005). This amount was expended in fiscal 2002; however, it was expended in a fixed cost account code and did not carry forward into the base budget.

DP 15 - Historical Interpretation FTE - This is a non-general fund request for \$11,469 (\$5,680 in fiscal 2004 and \$5,789 in fiscal 2005) to increase the tour supervisor position to a 0.50 FTE. Currently the position is authorized at 0.15 FTE. Late in fiscal 2002, the position was separated from a 0.65 position and an operating change was requested to fund the position to equal a 0.50 FTE in fiscal year 2003. This adjustment will align the authorized FTE level with the actual work level.

Accommodations tax used for historical interpretation is for the Capitol tour guides, the Original Governor's Mansion tours, special events, preservation and restoration; "on the lawn" and indoor society special programs and commemorations; specialized adult and family tours; staff and volunteer tour guide training; interpretive brochures and handouts; family activity kits; and interactive exhibit components.

DP 7000 - Public Service Reductions - The executive proposes to continue an annual \$26,715 of Governor's reductions, \$43,661 of the global special session reductions, and an additional \$57,478. Reductions will result in less curatorial work accomplished including fewer collections acquired, cataloged, and preserved; less technical assistance and public service to Montana community museums and historical societies; reduced ability to coordinate work with Montana businesses needing society images; less ability to honor loan requests from sister institutions around Montana and the nation; fewer public programs and educational activities and events offered; and possible reduction in museum visitor hours and school tour opportunities.

**LFD
COMMENT**

This adjustment reduces personal services by \$56,195 and operating expenses by \$71,209. Over the past three years there were approximately 50,000 to 54,000 educational program participants each year and over 30 exhibits were displayed throughout the state during a portion of each fiscal year. Due to proposed budget reductions, the society anticipates 35,000 to 45,000 educational program participants per year and display of 19-24 exhibits each year. In addition, the society is currently evaluating how to reduce the hours that their public spaces are open by 15 to 16 hours a week. To meet this savings, they are considering closing public spaces one day each week and opening galleries and the library later on each remaining day. Many museums throughout the country are closed on Mondays. The Historical Society Museum is currently open 8 to 10 hours a day, seven days a week during the summer, including weekends and holidays. During the winter it's open for nine hours, Monday thru Friday, eight hours on Saturday, and closed on Sundays and holidays. In order to offset some of the impacts to museum visit and research time, the society intends to add a limited number of evening hours.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7009 - Lewis and Clark Interpretation 03	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
Total	0.00	\$0	\$100,000	\$0	\$100,000 *	0.00	\$0	\$100,000	\$0	\$100,000 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7009 - Lewis and Clark Interpretation - The Lewis and Clark exhibit and interpretations for \$100,000 per year bed tax funding is to help develop and initiate the \$500,000 long-term new Lewis and Clark exhibit entitled "Neither Empty Nor Unknown" that is planned for May 2005 through 2007 in the Haynes Gallery and Auditorium. The early work will include conservation of archival materials and artifacts to allow their safe use in exhibit displays. Sixty-six percent of the museum visitation is from out-of-state and another 20 percent is from outside the Helena area.

LFD COMMENT

If the exhibits are a priority of the legislature and the intent of this proposal is to acquire seed money to start the project with the rest funded through private sources, the legislature may want to consider approving the request on a one-time-basis only. Refer to Volume 4 - Section C - Natural Resources and Commerce under the Department of Commerce, Montana Promotion Division for issues and options regarding bed tax revenue.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	10.38	0.00	0.00	10.38	0.00	0.00	10.38	10.38
Personal Services	346,287	49,875	0	396,162	51,628	0	397,915	794,077
Operating Expenses	324,601	10,741	0	335,342	11,985	0	336,586	671,928
Equipment	0	0	0	0	0	0	0	0
Transfers	53,652	(6,900)	0	46,752	(6,900)	0	46,752	93,504
Total Costs	\$724,540	\$53,716	\$0	\$778,256	\$56,713	\$0	\$781,253	\$1,559,509
General Fund	53,652	(6,900)	0	46,752	(6,900)	0	46,752	93,504
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	0	0	0	0	0	0	0	0
Proprietary	670,888	60,616	0	731,504	63,613	0	734,501	1,466,005
Total Funds	\$724,540	\$53,716	\$0	\$778,256	\$56,713	\$0	\$781,253	\$1,559,509

Program Description

The Publications Program promotes the study of Montana history and education through lectures, publications, and curriculum materials. The program publishes quarterly editions of the award-winning Montana the Magazine of Western History and the Montana Post, the official newsletter of the society. It also publishes books under the Montana Historical Society Press imprint and operates the museum store.

Program Narrative

Publications Program Major Budget Highlights	
○ Total funding is proposed at a slightly higher level than actual fiscal 2002 expenditures ○ General fund savings is \$6,900 per year due to general operating reductions ○ Proprietary funding increases \$60,616 in fiscal 2004 and \$63,613 in fiscal 2005, about nine percent over fiscal 2002 expenditures, due to increases in personal services and fixed costs	
Major LFD Issues	
○ Publications subsidized by general fund	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Publications Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 53,652	7.4%	\$ 46,752	6.0%	\$ 46,752	6.0%
06002 Historical Society Enterprise	409,128	56.5%	448,370	57.6%	449,967	57.6%
06071 Merchandise - Historical Society	261,760	36.1%	283,134	36.4%	284,534	36.4%
Grand Total	\$ 724,540	100.0%	\$ 778,256	100.0%	\$ 781,253	100.0%

The program is funded with a combination of general fund and proprietary funds. The general fund, budgeted as a transfer, pays a portion of 2.00 FTE involved in publishing Montana the Magazine of Western History. The transfer allows these funds to be spent from the proprietary accounts, in accordance with generally accepted accounting principle (GAAP).

The proprietary funds are enterprise funds from the sale of magazines and books from the retail and mail order bookstore. They support program operations including the museum store, the magazine and other publications, and the historical society press.

LFD
ISSUE

Proprietary Program is Subsidized with General Fund

The Publications Program is an enterprise operation that publishes and sells magazines and books and operates a mail order and retail bookstore. Funds generated from these sales are deposited into two individual proprietary funds, the publications enterprise fund and the merchandise-museum store fund. These funds have historically provided over 90 percent of the Publications Program funding with the remaining amount provided from the general fund. Figure 1 provides historical program appropriations by budget item and fund source along with the proposed 2005 biennium budget. The legislature may wish to make this a fully funded proprietary program.

Figure 1

Montana Historical Society Publication Program												
History of Total Appropriations and the 2005 Biennium Executive Request												
	Historical Program Appropriations						--Proposed--					
	1995		1997		1999		2001		2003		2005	
	Biennium		Biennium		Biennium		Biennium		Biennium		Biennium	
<u>Purpose of Approp. Authority</u>												
Personal Services	\$ 397,860	33.13%	\$ 510,226	34.97%	\$ 598,098	40.93%	\$ 688,345	44.43%	\$ 740,669	48.44%	\$ 794,077	50.93%
Operating Expenses	698,439	58.17%	842,545	57.74%	745,446	51.01%	711,225	45.91%	681,112	44.54%	671,928	43.09%
Equipment	1,500	0.12%	2,200	0.15%	11,000	0.75%	42,000	2.71%	-	0.00%	-	0.00%
Tranfers (partial funding for 2 FTE)	<u>102,930</u>	<u>8.57%</u>	<u>104,198</u>	<u>7.14%</u>	<u>106,720</u>	<u>7.30%</u>	<u>107,754</u>	<u>6.95%</u>	<u>107,304</u>	<u>7.02%</u>	<u>93,222</u>	<u>5.98%</u>
Total	\$1,200,729	100.00%	\$1,459,169	100.00%	\$1,461,264	100.00%	\$1,549,324	100.00%	\$1,529,085	100.00%	\$1,559,227	100.00%
<u>Fund Source</u>												
General Fund	\$ 102,930	8.57%	\$ 104,198	7.14%	\$ 106,800	7.31%	\$ 107,302	6.93%	\$ 107,304	7.02%	\$ 93,222	5.98%
Federal Special	-	0.00%	10,000	0.69%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Proprietary	<u>1,097,799</u>	<u>91.43%</u>	<u>1,344,971</u>	<u>92.17%</u>	<u>1,354,464</u>	<u>92.69%</u>	<u>1,442,022</u>	<u>93.07%</u>	<u>1,421,781</u>	<u>92.98%</u>	<u>1,466,005</u>	<u>94.02%</u>
Total	\$1,200,729	100.00%	\$1,459,169	100.00%	\$1,461,264	100.00%	\$1,549,324	100.00%	\$1,529,085	100.00%	\$1,559,227	100.00%

There is a fund balance in both accounting entities: \$238,945 in the merchandise-museum store fund and \$193,658 in the publications enterprise fund. A majority of the fund balance is inventory consisting of magazines, press books, and store merchandise. The fiscal 2002 cash balance in each account is \$19,061 (merchandise fund) and \$48,181 (enterprise fund) which could be used to replace a portion of the \$46,661 general fund requested in each year of the 2005 biennium/

**LFD
ISSUE
(continued)**

General fund within this program is used to pay a portion of the cost for 2.00 FTE involved in publishing the society magazine. This issue was raised by the LFD during the 2001 biennium budget analysis cycle and it was noted that during the 1997 legislative session, the MHS director addressed the Education Subcommittee and made a statement to the effect that if the legislature subsidized the program for the 1999 biennium, he thought it should be able to fund itself in the future. However, the current director has indicated that without general fund, the society would have to shut down the state's only academic press that publishes books on Montana history. Most other states have an academic press at one of its universities, Montana does not. The legislature may wish to consider whether publishing books on Montana history is a state priority.

Options:

- Replace all general fund within the Publications Program with proprietary funds deposited into accounting entity 06002-MHS Publications Enterprise and 06072 - Merchandise Historical Society program requiring the program to become self-supporting.
- Replace a portion of the general fund with proprietary funding.
- Phase out general fund authority within this program over a certain time period. This could be accomplished by requiring a percentage or fixed amount of proprietary funds to replace general fund each year.
- Approve the Executive Budget.

If the program becomes self-supporting, it will no longer require appropriations through HB 2.

Present Law Adjustments	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					66,382					68,208
Vacancy Savings					(16,507)					(16,580)
Inflation/Deflation					1,729					1,810
Fixed Costs					9,012					10,175
Total Statewide Present Law Adjustments					\$60,616					\$63,613
DP 7000 - Gov Reductions - Public Service										
	0.00	(6,900)	0	0	(6,900)	0.00	(6,900)	0	0	(6,900)
Total Other Present Law Adjustments	0.00	(\$6,900)	\$0	\$0	(\$6,900)	0.00	(\$6,900)	\$0	\$0	(\$6,900)
Grand Total All Present Law Adjustments					\$53,716					\$56,713

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7000 - Gov Reductions - Public Service - The executive proposes to continue Governor reductions requiring the program to evaluate all aspects of magazine and book production.

**LFD
COMMENT**

This adjustment reduces transfers of proprietary funds to general fund by \$6,900. Expending some of the fund balance within the publication enterprise fund or the merchandise fund could offset the reduction and mitigate impacts. Refer to the funding issue for additional information.

Impacts during fiscal 2003 consisted of shifting two out of four editions of the newsletter to electronic format only, as opposed to printed and mailed distribution.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	9.50	0.00	0.00	9.50	0.00	0.00	9.50	9.50
Personal Services	363,024	56,640	0	419,664	57,267	0	420,291	839,955
Operating Expenses	82,076	1,268	0	83,344	2,468	0	84,544	167,888
Grants	211,481	0	(22,629)	188,852	0	(22,575)	188,906	377,758
Total Costs	\$656,581	\$57,908	(\$22,629)	\$691,860	\$59,735	(\$22,575)	\$693,741	\$1,385,601
General Fund	64,909	3,023	(22,629)	45,303	4,005	(22,575)	46,339	91,642
Federal Special	591,672	54,885	0	646,557	55,730	0	647,402	1,293,959
Total Funds	\$656,581	\$57,908	(\$22,629)	\$691,860	\$59,735	(\$22,575)	\$693,741	\$1,385,601

Program Description

The Historic Sites Preservation Program administers the Montana Antiquities Act and Montana's participation in federal Historic Preservation Act and the federal grants-in-aid for historic preservation. Staff provide technical assistance to all Montana property owners. Staff review all proposed federally funded or permitted projects within the state to determine their effect on properties listed or eligible for listing on the National Register of Historic Places. The office certifies historic structures and rehabilitation projects for federal tax credits to citizens and businesses authorized by the Tax Reform Act of 1976. The program awards federal grants to local governments, communities, and individuals for: 1) the Certified Local Government Program, 2) historic survey and planning for historic areas, and 3) bricks and mortar rehabilitation when funds are available.

Program Narrative

Historic Sites Preservation Program	
Major Budget Highlights	
o	The executive proposes to replace general fund with federal preservation grant funds

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Historic Preservation Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 64,909	9.9%	\$ 45,303	6.5%	\$ 46,339	6.7%
03021 Historic Sites Preservation	591,672	90.1%	646,557	93.5%	647,402	93.3%
Grand Total	\$ 656,581	100.0%	\$ 691,860	100.0%	\$ 693,741	100.0%

The program is funded with a combination of general fund and federal special revenue from National Park Service grants.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				74,126					74,779
Vacancy Savings				(17,486)					(17,512)
Inflation/Deflation				1,123					1,209
Fixed Costs				4,545					5,659
Total Statewide Present Law Adjustments				\$62,308					\$64,135
DP 7000 - Gov. Reduction - Public Service									
0.00	(4,400)	0	0	(4,400)	0.00	(4,400)	0	0	(4,400)
Total Other Present Law Adjustments									
0.00	(\$4,400)	\$0	\$0	(\$4,400)	0.00	(\$4,400)	\$0	\$0	(\$4,400)
Grand Total All Present Law Adjustments				\$57,908					\$59,735

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD COMMENT	9.50 FTE are reflected in the fiscal 2002 snapshot for this program. This is 0.50 FTE greater than the fiscal 2002 budget approved by the 2001 legislature. During fiscal 2002, the executive approved a program transfer that moved the authority for 0.50 FTE from the Administration Program to the Historic Sites Preservation Program and combined it with another 0.50 FTE (Position #5170067). However, total agency FTE reflected in the snapshot equal the fiscal 2002 approved budget.

DP 7000 - Gov. Reduction - Public Service - The executive proposes to continue the Governor reductions of \$4,400 each year, reducing public service and outreach activities including visitation of property owners and properties for possible listing in the National Register of Historic Places; and reducing on-site consultation with building owners interested in federal tax credit project investments or other technical assistance as preservation work gets underway.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7003 - Preservation Grant Reduction										
06	0.00	(22,629)	0	0	(22,629)	0.00	(22,575)	0	0	(22,575)
Total	0.00	(\$22,629)	\$0	\$0	(\$22,629)*	0.00	(\$22,575)	\$0	\$0	(\$22,575)*

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7003 - Preservation Grant Reduction - This adjustment removes general fund in a Historic Preservation Office position and replaces it with federal preservation grant dollars. This change will require a reduction in preservation grants for Montana properties listed in the National Register of Historic Places.

LFD COMMENT	Reductions will impact the program's "Bricks and Mortar" grants distributed over the past two years to assist in the restoration of Montana properties listed in the National Register of Historic Places. \$86,000 was granted through this program in fiscal 2001 and fiscal 2002 funding eight projects around the state. Some of the funded projects include the Copper King Mansion in Butte, the Northern Rockies Heritage Center at Fort Missoula, and the Old Cobblestone School in Absarokee. The proposed reduction of about \$45,200 over the biennium will reduce the number of funded projects.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants	(916)	916	0	0	916	0	0	0
Total Costs	(\$916)	\$916	\$0	\$0	\$916	\$0	\$0	\$0
State/Other Special	(916)	916	0	0	916	0	0	0
Total Funds	(\$916)	\$916	\$0	\$0	\$916	\$0	\$0	\$0

Program Description

The Montana Lewis and Clark Bicentennial Commission was statutorily created by the 1997 legislature. Its main mission is to provide statewide leadership, communication, and coordination in planning and implementing the Lewis and Clark Bicentennial observance in Montana which will be held from 2003-2006. The commission has 12 Governor-appointed commissioners serving three-year staggered terms.

Program Narrative

Lewis and Clark Bicentennial Commission	
Major Budget Highlights	
o	Budget appears to correct an account code error

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table		
Lewis & Clark Bicentennial		
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002
02494 Lewis & Clark Commission	\$ (916)	100.0%
Grand Total	\$ (916)	100.0%

The program is funded with state special revenue from accommodations tax.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
DP 16 - Lewis & Clark Authority	0.00	0	916	0	916	0.00	0	916	0	916
Total Other Present Law Adjustments	0.00	\$0	\$916	\$0	\$916	0.00	\$0	\$916	\$0	\$916
Grand Total All Present Law Adjustments					\$916					\$916

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 16 - Lewis & Clark Authority - This request is a correction of an account code. The request is to zero out the negative budget request, resulting in a zero request.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	87.06	0.00	3.00	90.06	0.00	3.00	90.06	90.06
Personal Services	3,628,252	64,454	102,347	3,795,053	63,374	102,217	3,793,843	7,588,896
Operating Expenses	5,552,896	(92,516)	0	5,460,380	(116,065)	0	5,436,831	10,897,211
Equipment	9,895	0	0	9,895	0	0	9,895	19,790
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	5,942,089	865,380	(918,709)	5,888,760	981,888	(1,032,218)	5,891,759	11,780,519
Grants	11,555,950	1,284,379	0	12,840,329	1,439,416	0	12,995,366	25,835,695
Benefits & Claims	23,340,271	3,000,000	0	26,340,271	6,000,000	0	29,340,271	55,680,542
Transfers	140,590,264	3,183,353	(6,299,126)	137,474,491	3,986,291	(7,105,514)	137,471,041	274,945,532
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$190,619,617	\$8,305,050	(\$7,115,488)	\$191,809,179	\$12,354,904	(\$8,035,515)	\$194,939,006	\$386,748,185
General Fund	138,589,358	5,316,012	(7,217,835)	136,687,535	6,235,911	(8,137,732)	136,687,537	273,375,072
State/Other Special	12,618,636	482,364	0	13,101,000	610,363	0	13,228,999	26,329,999
Federal Special	39,411,623	2,506,674	102,347	42,020,644	5,508,630	102,217	45,022,470	87,043,114
Total Funds	\$190,619,617	\$8,305,050	(\$7,115,488)	\$191,809,179	\$12,354,904	(\$8,035,515)	\$194,939,006	\$386,748,185

Agency Description

The Office of the Commissioner of Higher Education (OCHE) is the state-level administrative organization of the Montana University System. All state funds appropriated by the legislature to the Board of Regents for the support of the Montana University System are channeled through the Office of the Commissioner of Higher Education.

The Montana University System is comprised of:

- o The Board of Regents (BOR)
- o The Commissioner of Higher Education (CHE), his staff, and several system-wide programs administered from the Office of the Commissioner of Higher Education
- o The University of Montana, with:
 - o Four-year campuses in Missoula, Butte, and Dillon
 - o Two-year campuses in Missoula, Butte, and Helena
 - o Two higher education agencies in Missoula and Butte
- o Montana State University, with:
 - o Four-year campuses in Bozeman, Billings, and Havre
 - o Two-year campuses in Billings and Great Falls
 - o Three higher education agencies in Bozeman and Great Falls
- o For budget purposes, the Montana University System also includes the community colleges in Kalispell, Glendive, and Miles City. Governance of the community colleges is divided between the Board of Regents and the board of trustees of each community college district
- o

The OCHE budget is organized in the following programs:

- o The Board of Regents travel, per diem, and other related costs
- o The CHE, his staff, and all costs related to the state-level administration of the Montana University System not accounted for in other OCHE programs
- o State- and federally-funded interstate student assistance and student aid programs administered at the state level, such as the interstate exchange programs for students seeking a medical education, State Work Study, and federal programs that grant funds to needy students
- o Three federal grant programs, each with a specific purpose, administered at the state level
- o The Montana University System Group Insurance program
- o The Montana Guaranteed Student Loan Program
- o The Community College Assistance Program
- o The Tribal College Assistance Program
- o The Appropriation Distribution program, where the transfer of state funds to the education units and agencies is recorded and reported

Supplemental Appropriation Description

The executive recommends approval of \$76,000 general fund to allow the Office of the Commissioner of Higher Education to comply with a legislative audit recommendation to properly account for indirect costs associated with federal grants. Proper accounting procedures calls for indirect cost recoveries to be deposited to the state general fund and costs to be paid from the state general fund. The OCHE had been reducing general fund expenditures in the amount of federal indirect cost recoveries because it lacked sufficient general fund authority to spend the indirect cost recoveries. The executive notes there will be no impact on general fund, since a like amount of revenue will be deposited into the general fund.

Agency Discussion

Montana University System Major Budget Highlights
○ The Executive Budget proposes the university system receive approximately the same amount of general fund in the 2005 biennium as was appropriated in fiscal 2002 and fiscal 2003, following special session action, \$273.4 million. To accomplish this objective, the Executive Budget: ○ Eliminates general fund support for all statewide present law adjustments, a biennial total of \$21.2 million ○ Eliminates general fund support for all other present law adjustments, including enrollment growth, continuation of the \$100 per resident student authorized by the 2001 legislature, and fee waiver increases. The total biennial reduction is \$16.0 million. ○ Reduces the proposed general fund budget an additional \$3.8 million (\$0.9 million of this reduction is replaced with six-mill levy revenue). ○ The Executive Budget proposes increased tuition revenue from anticipated student enrollment increases and tuition rate increases fund present law and pay plan cost increases at the educational units. ○ The Montana University System campuses have reported record enrollments in the fall of 2002 and are projecting continued enrollment increases into the 2005 biennium. Community colleges are reporting enrollment increases as well.
Major LFD Issues
○ Statewide public postsecondary education policy goals and accountability measures

The executive adjustments to reach its proposed general fund budget are summarized below in Figure 1. As shown in the figure, all cost increases are effectively eliminated in the Executive Budget, plus an additional \$3.8 million general fund reduction is applied to achieve the budget target.

Impact of Proposed Executive Budget

The impact of the proposed Executive Budget is summarized below in Figure 2. As shown in the figure, funding for education services at educational units and community colleges decrease, despite anticipated enrollment increases. State general fund per resident student decreases five percent between the 2003 and 2005 biennium. The Executive Budget proposes that tuition increases and increased enrollment will help fund the general operating budgets of the campuses.

State funding for research and public service agencies remain virtually flat for the 2005 biennium.

State funds available in the Executive Budget for student grants and assistance are increased for WICHE, WWAMI, and Minnesota Dentistry programs and are decreased for state-funded Baker Grants. Reduced funding for Baker Grants means either a smaller grant per student (as shown on the figure), or it could mean fewer students receiving a grant.

Additional discussion of the impact of the proposed Executive Budget is included in each program narrative on the following pages.

Figure 1 Agency General Fund Summary Executive Budget 2005 Biennium Adjustments to Fiscal 2002 Base			
Budget Item	Fiscal 2004	Fiscal 2005	2005 Biennium
General Fund Base Fiscal 2002	\$138,589,358	\$138,589,358	\$277,178,716
Adjustments to Fiscal 2002 Base			
Base Funding Switch - Six-Mill Levy	(366,088)	(494,087)	(860,175)
Statewide Present Law Adjustments	10,790,583	10,451,663	21,242,246
Other Present Law Adjustments	7,326,030	8,712,848	16,038,878
Special Session Reductions	(12,434,514)	(12,434,514)	(24,869,028)
Additional Reductions	(7,217,835)	(8,137,731)	(15,355,566)
Total Adjustments to Fiscal 2002 Base	(\$1,901,824)	(\$1,901,821)	(\$3,803,645)
Proposed General Fund in Executive Budget	\$136,687,534	\$136,687,537	\$273,375,071

Figure 2

Impact of Executive Budget in Functional Areas -- Montana University System -- State General Fund Only 2005 Biennium Proposed Budget vs. Fiscal 2002					
<u>Budget Item</u>	<u>Actual Fiscal 2002</u>	<u>Estimated Fiscal 2003</u>	<u>Executive Budget Fiscal 2004</u>	<u>Executive Budget Fiscal 2005</u>	<u>% Change 03-05 Biennium</u>
Education Services					
<i>Education Units</i>	\$105,288,845	\$101,684,310	\$103,354,336	\$103,222,917	-0.19%
Resident Student FTE Enrollment	25,567	26,305	26,866	27,459	4.73%
State \$\$/Student FTE	\$4,118	\$3,866	\$3,847	\$3,759	-4.73%
<i>Community Colleges</i>	\$5,843,089	\$5,724,430	\$5,783,760	\$5,783,759	0.00%
Resident Student FTE Enrollment	2,152	2,192	2,322	2,369	7.99%
State \$\$/Student FTE	\$2,715	\$2,612	\$2,491	\$2,441	-7.40%
<i>Tribal College Assistance</i>	\$96,500	\$0	\$96,500	\$0	0.00%
Non-beneficiary student FTE	289		289 <i>Est.</i>		0.00%
State \$\$/Student FTE	\$334		\$334		0.00%
Research & Public Service	\$17,542,604	\$17,423,824	\$17,478,492	\$17,478,492	-0.03%
Student Grants & Assistance					
<i>WICHE/WWAMI/Mn Dentistry</i>	\$4,487,852	\$4,671,007	\$4,883,325	\$5,137,862	9.42%
No. of Students Served	147	147	147	150	1.02%
State \$\$/Student Served	\$30,530	\$31,776	\$33,220	\$34,252	8.29%
<i>Baker Grants</i>	\$2,034,870	\$1,854,925	\$1,805,691	\$1,805,691	-7.16%
No. of Students Served	4,486	4,486	4,486 <i>Est.</i>	4,486 <i>Est.</i>	0.00%
State \$\$/Student Served	\$454	\$413	\$403	\$403	-7.16%
<i>State Workstudy</i>	\$847,245	\$825,638	\$847,245	\$847,245	1.29%
No. of Students Served	975	975	975 <i>Est.</i>	975 <i>Est.</i>	0.00%
State \$\$/Student Served	\$869	\$847	\$869	\$869	1.29%
<i>State Match to Federal Grant Programs</i>	\$872,639	\$896,459	\$872,639	\$872,639	-1.35%
No. of Students Served*	7,565	7,565	7,565 <i>Est.</i>	7,565 <i>Est.</i>	0.00%
State \$\$/Student Served	\$115	\$119	\$115	\$115	-1.35%
Administration and Special Programs					
<i>Board of Regents/OCHE</i>	\$1,426,596	\$1,300,101	\$1,398,899	\$1,372,434	1.64%
<i>Talent Search</i>	\$83,839	\$93,909	\$92,348	\$92,228	3.84%
<i>Workforce Development</i>	\$65,279	\$81,850	\$74,299	\$74,299	1.00%
TOTAL GENERAL FUND	<u>\$138,589,358</u>	<u>\$134,556,453</u>	<u>\$136,687,534</u>	<u>\$136,687,566</u>	0.08%

*Includes Montana University System and Community College students receiving financial assistance from federal program matched with state funds. Students may be counted more than once.

Governance and Legislative Appropriations Authority

Governance of the Montana University System

The governance of the Montana University System underwent a profound change 30 years ago with the adoption of the 1972 Constitution. Under the 1889 Constitution, general control and supervision of the university system was vested with a Board of Education responsible for all Montana public education, including higher education. The Constitution gave power to the legislature to prescribe the duties and power of the Board. Practically speaking, the legislature had a significant amount of control over the Board and university system, including management and academic areas.¹ Although the governance system had its share of challenges, it remained in effect until Montana's new constitution was adopted in 1972.

Montana's 1972 Constitution changed nearly everything about higher education governance. Instead of a Board of

¹ Eddy McClure, "The Structure of Higher Education in Montana: Meandering the Murky Line," University System Funding Study – SJR 16 Final Report, Montana Legislative Services Division, Helena, Montana, January 2001, p.2.

Education overseeing all of public education, there is a Board of Regents overseeing higher education. The 1972 Constitution grants full power, responsibility, and authority to supervise, coordinate, manage and control the Montana University System to the Board of Regents. With this change, the power and control over the university system shifted to the board, limited only by the language of the Constitution, while the legislature retained the power to appropriate and audit funds.²

Legislative Appropriations Authority

The appropriation of funds is a legislative power in both the 1889 and 1972 Montana Constitutions.

In a 1975 Montana Supreme Court ruling addressing the authority of the newly formed Board of Regents and the scope of the appropriation power of the Montana legislature, the court provided guidelines the legislature must consider in the appropriation process,³ including:

- The Board of Regents is subject to the legislature's appropriation power and public policy, but the legislature cannot do indirectly through the means of line item appropriations and conditions what is impermissible for it to do directly.

While the court recognized the importance of line item appropriations to the legislative process to develop a budget and ensure strict accountability of state funds, it noted line items could not be used to infringe upon the Board of Regents authority to "supervise, coordinate, manage and control the university system". For example, the legislature cannot eliminate a specific program on a university campus, such as the law school, because this is a management decision of the Board of Regents.

- The legislative appropriation power extends beyond the general fund and encompasses all those public operating funds of state government, but does not extend to private funds received by state government that are restricted by law, trust agreement, or contract. Student tuition and fees and foundation donations are considered private funds.
-
- The legislature may, within reason, attach conditions to university system appropriations that, if accepted by the Board of Regents, bind them to the conditions.

The legislature does condition appropriations to the university system. An example of an appropriation condition set by the legislature is contained in HB 2 passed by the Fifty-seventh Legislature. In this example, the legislature requires the reversion of state money if projected enrollments used to establish the appropriation are not achieved.

Examples of appropriation conditions that are unreasonable in the court's view include limiting salary increases for university system personnel, and directly attempting to set tuition rates.

- Finally, the court said that the regents' power to govern must be harmonized with the legislature's power to appropriate, set public policy, and ensure strict accountability of state revenues and expenditures.
-

Line Item and Lump Sum Appropriations

The ability to use line item appropriations to implement public policy is a time-honored practice of the Montana Legislature. Line items have been the vehicle used to appropriate funds and exercise control over expenditures in Montana since 1891.⁴

In 1990, an interim legislative committee charged with studying higher education funding recommended the legislature replace the line item appropriation practice with a lump sum appropriation to the Board of Regents to: 1) encourage development of a system-wide perspective; 2) encourage adoption of system-wide needs and goals assessment; and 3) allow for greater management flexibility in times of tight resources.⁵ The 1991 legislature took the first step towards a lump sum appropriation when it consolidated several program line item appropriations at the colleges of technology into a

² Ibid., p.5.
³ Ibid., pp. 21-23
⁴ Ibid., p.11.
⁵ Sandy Whitney, "Lump Sum Funding – History and Background Information", University System Funding Study – SJR 16 Final Report, Montana Legislative Services Division, Helena, Montana, January 2001, p. 1

single appropriation for each college. The January 1992 Special Legislative Session took another step towards lump sum appropriation when, faced with reducing state funding for the Montana University System due to state revenue shortfalls, it allowed the Board of Regents to decide how to allocate the reduction. The 1993 legislature consolidated program appropriations into a single appropriation for each university unit and college of technology and allowed the Board of Regents to transfer up to 10 percent of each unit's appropriation between fiscal years. The 1995 legislature took the final step that shaped the Montana University System appropriation as it exists today: A lump sum appropriation is established for the Office of the Commissioner of Higher Education, except Community Colleges and Tribal College Assistance, and the educational units of the system, and line item appropriations for the remaining programs.

Legislative Appropriation

For the past four biennia, the legislature has appropriated state funds to the Montana University System with a lump sum appropriation and with line item appropriations:

- o A lump sum appropriation that is comprised of the line item appropriations for:
 - o The Office of the Commissioner of Higher Education, except the Community Colleges and Tribal College Assistance programs
 - o The educational units, including the four-year university campuses and two-year colleges of technology, and special programs

Language in HB 2 consolidates the HB 2 line item appropriations for these programs into a biennial, lump-sum appropriation.

- o Separate HB 2 line item appropriations for each of the following entities:
 - o The Agricultural Experiment Station
 - o The Cooperative Extension Service
 - o The Forestry and Conservation Experiment Station
 - o The Montana Bureau of Mines and Geology
 - o The Fires Services Training School
 - o The Community College Assistance program
 - o The Tribal College Assistance program

Funding Summary

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget						
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %	
Administration Program	\$ 2,667,555	\$ -	\$ -	\$ 2,667,555	0.7%	
Student Assistance Program	17,072,337	-	377,970	17,450,307	4.5%	
Dde Mathematics & Sci Ed Act	-	-	616,066	616,066	0.2%	
Community College Assistance	11,567,519	-	-	11,567,519	3.0%	
Talent Search	184,576	-	4,917,906	5,102,482	1.3%	
Work Force Development Pgm	148,598	-	13,624,726	13,773,324	3.6%	
Appropriation Distribution	241,534,209	26,329,999	-	267,864,208	69.3%	
Tribal College Assistance Program	96,500	-	-	96,500	0.0%	
Guaranteed Student Loan Pgm	-	-	67,506,446	67,506,446	17.5%	
Board Of Regents-Admin	103,778	-	-	103,778	0.0%	
Grand Total	\$ 273,375,072	\$ 26,329,999	\$ 87,043,114	\$ 386,748,185	100.0%	

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	87.06	3.00	90.06	87.06	3.00	90.06	87.06	90.06
Personal Services	3,692,706	102,347	3,795,053	3,691,626	102,217	3,793,843	7,834,484	7,588,896
Operating Expenses	5,460,380	0	5,460,380	5,436,831	0	5,436,831	20,579,896	10,897,211
Equipment	9,895	0	9,895	9,895	0	9,895	25,000	19,790
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	6,807,469	(918,709)	5,888,760	6,923,977	(1,032,218)	5,891,759	11,769,519	11,780,519
Grants	12,840,329	0	12,840,329	12,995,366	0	12,995,366	25,302,269	25,835,695
Benefits & Claims	26,340,271	0	26,340,271	29,340,271	0	29,340,271	50,647,868	55,680,542
Transfers	143,773,617	(6,299,126)	137,474,491	144,576,555	(7,105,514)	137,471,041	275,789,197	274,945,532
Debt Service	0	0	0	0	0	0	7,496	0
Total Costs	\$198,924,667	(\$7,115,488)	\$191,809,179	\$202,974,521	(\$8,035,515)	\$194,939,006	\$391,955,729	\$386,748,185
General Fund	143,905,370	(7,217,835)	136,687,535	144,825,269	(8,137,732)	136,687,537	272,998,574	273,375,072
State/Other Special	13,101,000	0	13,101,000	13,228,999	0	13,228,999	25,685,096	26,329,999
Federal Special	41,918,297	102,347	42,020,644	44,920,253	102,217	45,022,470	93,272,059	87,043,114
Total Funds	\$198,924,667	(\$7,115,488)	\$191,809,179	\$202,974,521	(\$8,035,515)	\$194,939,006	\$391,955,729	\$386,748,185

Total funds proposed for the Office of the Commissioner of Higher Education decrease 1.3 percent, due primarily to decreased federal spending authority in the Guaranteed Student Loan Program. General fund is proposed to increase 0.1 percent, or almost \$0.4 million in the 2005 biennium.

Additional impacts of the executive proposed budget for the Montana University System are noted in the Agency Discussion section and the program narratives that follow this agency summary.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 15 - GSL Additional FTE										
12	3.00	0	0	102,347	102,347	3.00	0	0	102,217	102,217
DP 920 - Yellow Bay										
09	0.00	98,250	0	0	98,250	0.00	98,250	0	0	98,250
DP 922 - Beef Transfer Position - ES										
09	0.00	90,000	0	0	90,000	0.00	90,000	0	0	90,000
DP 1000 - Meeting Governor's Target										
04	0.00	(918,709)	0	0	(918,709)	0.00	(1,032,218)	0	0	(1,032,218)
DP 7900 - Achieving the Governor's Target -Lump Programs										
09	0.00	(6,144,936)	0	0	(6,144,936)	0.00	(6,924,870)	0	0	(6,924,870)
DP 7901 - Achieving the Governor's Target - AES										
09	0.00	(155,482)	0	0	(155,482)	0.00	(182,350)	0	0	(182,350)
DP 7902 - Achieving the Governor's Target - ES										
09	0.00	(87,415)	0	0	(87,415)	0.00	(92,808)	0	0	(92,808)
DP 7903 - Achieving the Governor's Target - BoM										
09	0.00	2,371	0	0	2,371	0.00	5,171	0	0	5,171
DP 7904 - Achieving the Governor's Target - FCES										
09	0.00	(68,065)	0	0	(68,065)	0.00	(65,704)	0	0	(65,704)
DP 7905 - Achieving the Governor's Target - FSTS										
09	0.00	(33,849)	0	0	(33,849)	0.00	(33,203)	0	0	(33,203)
Total	3.00	(\$7,217,835)	\$0	\$102,347	(\$7,115,488)	3.00	(\$8,137,732)	\$0	\$102,217	(\$8,035,515)

Language Recommendations

Establish Biennial Lump Sum Appropriation

The executive recommends language in HB 2 that establishes a biennial lump sum appropriation by combining the appropriation for the following programs:

- o OCHE administration
- o Student assistance and grants
- o Eisenhower math and science grant
- o Talent search
- o Workforce development
- o Educational units
- o Guaranteed Student Loan
- o Board of Regents

"Items 1 through 3 and 5 through 7b, 9 and 10 are a single biennial lump-sum appropriation."

Appropriation of all Funds; Budget Transfers

The executive recommends language in HB 2 that addresses appropriation of all funds in the university system and the requirements for budget transfers.

"University system unit is defined in 17-7-102(13). For all university system units, except the office of the commissioner of higher education, all funds (other than plant funds appropriated in House Bill No. 5, relating to long-range building and current unrestricted operating funds) are appropriated contingent on approval of the comprehensive program budget by the board of regents by October 1 of each year. For all university system 4-year units and colleges of technology, all funds, other than funds appropriated in House Bill No. 5 for long-range building programs, are appropriated as a lump sum for the biennium contingent upon approval of the comprehensive program budget by the board of regents by October 1 of each year. The board of regents shall allocate the appropriations to the individual units according to board policy. The budget must contain detailed revenue and expenditure and anticipated fund balances of current funds, loan funds, endowment funds, and plant funds. After the board of regents approves operating budgets, transfers between units may be made only with the approval of the board of regents. Transfers and related justifications must be submitted to the office

of budget and program planning and to the legislative fiscal analyst."

Standard Accounting Practices

The executive recommends language requiring the university system to use standard accounting practices at all units. "All university system units, except the office of the commissioner of higher education, shall account for expenditures consistently within programs and funds across all units and shall use the standards of accounting and reporting, as described by the national college and university business officers, as a minimum for achieving consistency."

Access to Banner Information System

The executive recommends language requiring the university system to provide the Office of Budget and Program Planning and the Legislative Fiscal Division access to the university information system.

"The Montana university system, except the office of the commissioner of higher education and the community colleges, shall provide the office of budget and program planning and the legislative fiscal division banner access to the entire university system's banner information system, except for information pertaining to individual students or individual employees that is protected by Article II, sections 9 and 10, of the Montana constitution, 20-25-515, or the Family Educational Rights and Privacy Act of 1974, 20 U.S.C. 1232g. The Montana university system shall provide the electronic data required for human resource data for the current unrestricted operating funds into the MBARS system. The salary and benefit data provided must reflect approved board of regents operating budgets."

Agency Issues

Statewide Policy Goals

The Executive Budget proposes a general fund budget for the Montana University System that implies significant policy changes, yet does not address how its proposal may impact Montana University System goals and objectives. For example, the Executive Budget proposes the Montana University System serve more resident students without additional state funding, but does not discuss the service impact if the expenditures are reduced or how the proposed reduction may impact the system's ability to achieve its goal of providing quality educational services. The Executive Budget suggests tuition rate increases could replace general fund increases at the same time it reduces state funds for student grants. There is no discussion in the Executive Budget if or how increased tuition rates and reduced state funds for student grants might impact current or prospective students' ability to access postsecondary education.

During the 2001-02 interim, the Education and Local Government Committee formed the Joint Subcommittee on Postsecondary Education Policy and Budget (PEPB) and charged it with "improving the relationship of the legislature and the Montana University System". To ensure the primary players were at the table in this process, the PEPB included six legislative members from the Education and Local Government Committee and the Legislative Finance Committee, two Board of Regents members, and a representative of the Governor's Office.

The PEPB focused its efforts on identifying public postsecondary education policy goals and accountability measures that allow the evaluation of the attainment of the policy goals, with the hopes of all parties developing a better understanding of the others' roles and responsibilities, which would ultimately lead to improved relations. Clarifying policy goals and providing a mechanism for evaluation was seen as a potential way to bridge the skepticism and distrust that frequently surfaces between the legislative branch and the Montana University System. Legislative involvement in this process was important to assure legislative concerns were addressed.

State appropriations to the Montana University System constitute a significant portion of the state's general fund budget, yet the linkage between policy goals and funding requirements is often unclear. The PEPB intends that its recommended postsecondary education policy goals and accountability measures move state level policy makers towards initiating public policy debate on how state funds can best be used to meet the higher education needs of Montana's citizens.

Figure 3 below summarizes the recommended policy goals and accompanying accountability measures.

Figure 3 – PEPB Recommended Policy goals and Accountability Measures

Policy Goal	Accountability Measure
○ Prepare students for success through quality education	○ Completion Rates ○ Retention Rates
○ Promote access and affordability	○ Affordability compared to other states ○ State Support as a percent of personal income and per capita income
○ Deliver efficient, coordinated services	○ Transferability among institutions ○ Percent of expenditures in instruction, administration, athletics, etc.
○ Be responsive to market and employment needs and opportunities	○ Job placement rates by field or program ○ Growth in FTE enrollment, certificates, and degrees conferred in 2-yr education
○ Contribute to Montana's economic and social success	○ Research and Development receipts and expenditures ○ Technology transfers (licensing and commercialization)
○ Collaborate with the K-12 school system and other postsecondary education systems	○ Collaborative programs with K-12, Community Colleges, and Tribal Colleges and private colleges (when appropriate). ○ Average SAT or ACT scores of first time full time MUS freshmen

The executive does not address the proposed policy goals, or the impact of its proposed budget upon the policy goals, despite the executive's status as a full partner on the PEPB subcommittee. The legislature has the opportunity to take the lead on this issue by adopting the proposed policy goals, identifying priorities, and working towards allocating state resources in line with the priorities.

Funding Policy Options -

How can policy goals be used in the appropriations process? Especially with budget constraints, policy goals are most meaningful and useful for determining appropriations if the policy goals are prioritized. When revenues are tight, it only makes sense to fund those items determined to be most important.

[Comment: It is suggested that the House and Senate Education Committees review the statewide policy goals and accountability measures and comment upon them as well as the Joint Appropriations Subcommittee on Education. Statewide policy goals and accountability measures reach beyond the budget and it is important that the policy committees have the opportunity to review and comment upon the proposed postsecondary education policy goals.]

Below is an example of how policy goals might be used in the appropriations process. The reader is cautioned that this is an example, not a recommendation.

Priority Policy Goal: Promote access and affordability

Objective: Increase access and improve affordability for undergraduate, resident students by subsidizing the cost of education for undergraduates at 150 percent of the rate at the senior campuses than would otherwise result in the executive proposed budget. Recognizing budget constraints, state funding for the costs associated with providing graduate education would be eliminated and state funds for remaining areas of the university system budget may be decreased.

Budget Impact: In this example, the additional state funding required to fund total costs per undergraduate, resident student enrolled at community colleges and university system campuses at 150 percent of the rate than would otherwise result in the Executive Budget is \$13.7 million more than budgeted for the educational units and community colleges in

the proposed Executive Budget.⁶ This additional amount could be generated from budget reallocation within the Montana University System, resulting in an average 24.8 percent reduction in the remaining budgets, or the funds could be generated by specific program reduction. Alternatively, the legislature may determine that additional state funds would be appropriate to achieve the priority policy goal.

Reasons to consider this approach: The primary advantage to the legislature in adopting and prioritizing education policy goals is the opportunity it provides for the legislature to make its priorities known to the Board of Regents prior to the Board allocation of state resources to the university system. The Board could also keep the legislature's priorities in mind as it manages the university system.

Reasons why this approach may not work: The Board of Regents may not consider, agree with, or adopt the legislature's priorities. The board has the final decision on how to allocate the state funds for the general operating budgets of the university system.

⁶ For purposes of this example, state funds include general fund and the six-mill property tax levy. Mandatory community college levies are excluded as they are not in HB2. The impact of excluding mandatory levies results in calculating state funds as 42 percent of total community college costs versus 66 percent if they were considered a state source. In addition, when calculating the cost of increasing the state portion of total costs at community colleges, the additional state funds required are directly related to the percentage considered the base. If the legislature pursues allocating state resources according to prioritized policy goals, the issue of whether and how to include community college mandatory levies will need to be addressed.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	15.40	0.00	0.00	15.40	0.00	0.00	15.40	15.40
Personal Services	1,050,354	(36,022)	0	1,014,332	(37,325)	0	1,013,029	2,027,361
Operating Expenses	322,390	10,288	0	332,678	(14,874)	0	307,516	640,194
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$1,372,744	(\$25,734)	\$0	\$1,347,010	(\$52,199)	\$0	\$1,320,545	\$2,667,555
General Fund	1,372,744	(25,734)	0	1,347,010	(52,199)	0	1,320,545	2,667,555
State/Other Special	0	0	0	0	0	0	0	0
Total Funds	\$1,372,744	(\$25,734)	\$0	\$1,347,010	(\$52,199)	\$0	\$1,320,545	\$2,667,555

Program Description

The Administration Program includes: 1) general administration of the university system, 2) academic, financial, and legal administration, 3) labor relations and personnel administration, and 4) student assistance administration. Article X, Section 9, of the Montana Constitution requires that the Board of Regents appoint the commissioner and prescribe his powers and duties.

Program Narrative

Administration Program	
Major Budget Highlights	
o	Proposed Executive Budget is below base year expenditures
o	Executive Budget applies special session reduction to personal services

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table						
Administration Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,372,744	100.0%	\$ 1,347,010	100.0%	\$ 1,320,545	100.0%
Grand Total	\$ 1,372,744	100.0%	\$ 1,347,010	100.0%	\$ 1,320,545	100.0%

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				90,542					89,185
Vacancy Savings				(45,637)					(45,583)
Inflation/Deflation				2,102					2,316
Fixed Costs				(2,023)					(27,399)
Total Statewide Present Law Adjustments				\$44,984					\$18,519
DP 11 - Scheduled Rent Payments									
0.00	3,249	0	0	3,249	0.00	3,249	0	0	3,249
DP 12 - Scheduled Computer Replacements									
0.00	6,960	0	0	6,960	0.00	6,960	0	0	6,960
DP 7010 - Global Special Session Reductions									
0.00	(80,927)	0	0	(80,927)	0.00	(80,927)	0	0	(80,927)
Total Other Present Law Adjustments									
0.00	(\$70,718)	\$0	\$0	(\$70,718)	0.00	(\$70,718)	\$0	\$0	(\$70,718)
Grand Total All Present Law Adjustments				(\$25,734)					(\$52,199)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 11 - Scheduled Rent Payments - In the base year, the Office of Commissioner of Higher Education was able to charge the School to Work grant for a portion of the office rent expense. That grant is no longer available.

DP 12 - Scheduled Computer Replacements - The Office of Commissioner of Higher Education three-year computer replacement schedule calls for four new PCs and printers each year of the 2005 biennium.

DP 7010 - Global Special Session Reductions - The special session reductions applied to the Administration Program are continued.

LFD COMMENT	The agency indicated that the special session reductions in this program, that are proposed by the executive to be continued in the 2005 biennium, could result in elimination of positions.
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Language

Legislative Audit Costs

"Total audit costs of the Office of the Commissioner of Higher Education are estimated to be \$38,381."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Local Assistance	99,000	6,000	0	105,000	9,000	0	108,000	213,000
Grants	8,294,230	198,655	0	8,492,885	450,192	0	8,744,422	17,237,307
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$8,393,230	\$204,655	\$0	\$8,597,885	\$459,192	\$0	\$8,852,422	\$17,450,307
General Fund	8,242,606	166,294	0	8,408,900	420,831	0	8,663,437	17,072,337
Federal Special	150,624	38,361	0	188,985	38,361	0	188,985	377,970
Total Funds	\$8,393,230	\$204,655	\$0	\$8,597,885	\$459,192	\$0	\$8,852,422	\$17,450,307

Program Description

This program includes all student grant funding. Types of grants include: work study, state grants, federal grant matching programs, and student grants for attending professional schools which are not available in Montana such as medicine, dentistry and veterinary medicine. Title 20, Chapters 25 and 26, MCA, govern the program.

Program Narrative

Student Assistance Program Major Budget Highlights	
- o Special session reductions of \$229,179 are continued - o State funding for the WICHE/WWAMI/Minnesota Dentistry program increases nine percent in the 2005 biennium	
Major LFD Issues	
o WICHE/WWAMI/Minnesota Dentistry cost drivers and projected costs.	

Funding

The following table shows program funding, by source, for the base year, for fiscal 2003, and for the 2005 biennium as recommended by the Governor.

Program Funding Table Student Assistance Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 8,242,606	98.2%	\$ 8,408,900	97.8%	\$ 8,663,437	97.9%
03164 State Student Incentive Grant	150,624	1.8%	188,985	2.2%	188,985	2.1%
Grand Total	\$ 8,393,230	100.0%	\$ 8,597,885	100.0%	\$ 8,852,422	100.0%

Figure 4					
Student Assistance Program					
Fiscal 2002 through 2005					
Program	Actual FY 2002	Op Plan FY 2003	Exec. Budget FY 2004	Exec. Budget FY 2005	Biennial % Change
<u>Funded with State Funds:</u>					
Baker Grants	\$2,034,870	\$1,854,925	\$1,805,691	\$1,805,691	-7.2%
State Work Study	847,245	825,638	847,245	847,245	1.3%
Montana Higher Education Grant*	229,071	229,421	229,071	229,071	-0.1%
SEOG **	492,239	498,270	492,239	492,239	-0.6%
Perkins Loan **	151,329	168,768	151,329	151,329	-5.4%
WICHE Dues	99,000	103,000	105,000	108,000	5.4%
WICHE Assistance	1,529,719	1,583,367	1,660,300	1,771,866	10.2%
WWAMI	2,736,733	2,857,440	2,986,025	3,120,396	9.2%
Minnesota Dentistry	122,400	127,200	132,000	137,600	8.0%
Unallocated	0	17,785	0	0	-100.0%
Subtotal State Funds	\$8,242,606	\$8,265,814	\$8,408,900	\$8,663,437	3.4%
<u>Funded with Federal Funds:</u>					
Montana Higher Education Grant*/SLEAP (Federal)***	\$150,624	\$207,568	\$188,985	\$188,985	5.5%
Total Funds	\$8,393,230	\$8,473,382	\$8,597,885	\$8,852,422	3.5%
*Funded from federal grant (Leveraging Educational Assistance Programs) and state general fund match					

State general fund increases three percent in the 2005 biennium in spite of the special session reduction. Increases in the WICHE/WWAMI/Minnesota Dentistry program are driving the general fund increase.

Federal funds increase five percent in the 2005 biennium.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 2 - WICHE/ WWAMI/ MN Dental	0.00	395,473	0	0	395,473	0.00	650,010	0	0	650,010
DP 3 - Increase Federal Financial Aid	0.00	0	0	38,361	38,361	0.00	0	0	38,361	38,361
DP 7010 - Global Special Session Reduction	0.00	(229,179)	0	0	(229,179)	0.00	(229,179)	0	0	(229,179)
Total Other Present Law Adjustments	0.00	\$166,294	\$0	\$38,361	\$204,655	0.00	\$420,831	\$0	\$38,361	\$459,192
Grand Total All Present Law Adjustments				\$204,655					\$459,192	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2 - WICHE/ WWAMI/ MN Dental - The proposed adjustments for the Professional Programs of WICHE/ WWAMI/ MN Dental carry forward the authorized slots from the last legislative session with the projected increases in support costs and additional new slots.

DP 3 - Increase Federal Financial Aid - The Executive Budget increases the federal financial aid for the Montana Higher Education Grant and Special Leveraging Educational Assistance Partnership based on fiscal 2003 allocations.

DP 7010 - Global Special Session Reduction - The executive continues the special session reductions that were applied to the Student Assistance Program. Reductions were targeted to the state Baker Grant Program.

LFD COMMENT

The special session general fund reduction allocated to this program reduced state funds available for the fiscal 2003 Baker grants. Following the special session reduction, the Board of Regents authorized expenditure reductions and tuition rate increases, at the education units, sufficient to backfill the state general fund reduction for the Baker grants. The executive continues this reduction in the 2005 biennium and once again applies it to the Baker grants. The Board could continue the fiscal 2003 practice. However, the final determination of how to manage any funding reduction in this program will be made by the Board following the legislative session. This program is part of the lump sum appropriation.

Other Issues

LFD ISSUE

WICHE/WWAMI/Minnesota Dentistry Cost Increases

The Executive Budget recommends a biennial general fund increase of \$862,000, or 9.4 percent for the program support costs of the WICHE/WWAMI/Minnesota Dentistry programs. The factors contributing to the increase include the estimated program support cost per slot, the number of funded student slots, and the student/program mix.

In establishing the legislative appropriation for this program, the estimated program support cost per slot is one factor the legislature has least control over, yet for the 2005 biennium it is the primary factor driving the cost increase. For example, the number of WWAMI students remains at 60 (excludes first year students in attendance at MSU) each year of the 2005 biennium, yet the support cost per slot increases an average of \$4,269 per slot in the 2005 biennium, resulting in a total dollar increase of \$512,248 for the 2005 biennium, or 59 percent of the \$862,000 total program increase.

The remaining factors, the number of funded student slots and the student/program mix, are within the control of the legislature to use in establishing an appropriation amount. If the legislature wanted to reduce the funding for the WICHE/WWAMI/Minnesota Dentistry program and have a logical basis for making a reduction, it would likely look at reducing the number of new student slots, as the legislature has been reluctant to reduce the number of continuing slots once a student enters the program. The agency has noted that all WICHE and Minnesota Dental programs, except veterinary, could be reduced if necessary both years of the biennium. Veterinary students receive acceptance notices early in the calendar year and need a commitment at that time. WWAMI students also receive acceptance notices early in the calendar year and a decision to reduce the number of WWAMI slots will have a one-year delayed fiscal impact, as first year students attend Montana State University in Bozeman. Therefore, to implement a reduction in WWAMI, the 2003 legislature would make the new student slot reduction effective in fiscal 2005, with the fiscal impact beginning in fiscal 2006. The student/program mix refers to the number of student slots funded for each program, such as medical, dental, veterinary. Different programs have different support costs, ranging from approximately \$5,500 in 2005 for Public Health to \$52,000 in 2005 for WWAMI Medicine.

**LFD
ISSUE
(continued)**

Historically, the number of new student slots funded by the legislature has been based partly on past practice and partly on best guess of student demand. There is no guiding policy from the Board of Regents on program priority. New student slot expansions are sometimes sought in specific areas and brought to the attention of the legislature for new funding, such as the veterinary program.

The reader should note that this program is part of the lump sum appropriation. Consequently the Board of Regents has the authority to make the ultimate decision on the number of funded slots and funds allocated to this program from the lump sum appropriation. In recent years, the Board of Regents has allocated funding to this program equal to the legislative appropriation contained in HB 2.

Figure 5 details the Executive Budget proposal for the WICHE/WWAMI/Minnesota Dental program for the 2005 biennium.

Figure 5
2005 Biennium Executive Budget Proposal
WICHE/WWAMI/Minnesota Dental Programs

	Fiscal 2003 Budgeted				Fiscal 2004 Executive Budget				Fiscal 2003 Budgeted			
	Cost per Slot	# of Student Slots New	Continuing	Total Cost	Cost per Slot	# of Student Slots New	Continuing	Total Cost	Cost per Slot	# of Student Slots New	Continuing	Total Cost
WICHE												
Administrative Dues				\$103,000				\$105,000				\$108,000
Student Assistance												
Medicine	\$22,800	6	18	\$547,200	\$23,700	6	17	\$545,100	\$24,600	6	18	\$590,400
(2) Dentistry	15,900	1	4	84,800	16,500	1	4	88,000	17,200	1	5	108,933
Optometry	10,300	1	4	51,500	10,700	1	3	42,800	11,100	1	3	44,400
(3) Public Health	5,800	1	2	15,467	6,000	1	1	10,000	6,200	1	2	16,533
Osteopathic Medicine	15,100	1	3	60,400	15,700	2	4	94,200	16,300	1	5	97,800
Veterinary	22,600	9	26	791,000	23,500	9	27	846,000	24,400	9	27	878,400
(1) Occupational Therapy	8,400	1	1	22,400	8,700	1	1	23,200	9,000	1	1	24,000
Podiatry	10,600	0	1	10,600	11,000	1	0	11,000	11,400	0	1	11,400
Subtotal		20	59	\$1,686,367		22	57	\$1,765,300		20	62	\$1,879,866
MINNESOTA DENTAL	\$15,900	2	6	127,200	\$16,500	2	6	132,000	\$17,200	2	6	137,600
(4) WWAMI	47,624	20	60	2,857,440	49,767	20	60	2,986,020	52,007	20	60	3,120,420
TOTAL		42	125	\$4,671,007		44	123	\$4,883,320		42	128	\$5,137,886

(1) Rates for all continuing occupational therapy students are calculated at 1 2/3 the annual support fee to include support for two required clinical rotations (\$14,500 FY 2004, \$15,000 FY 2005)

(2) One (1) dental student is enrolled in a three-year accelerated dental program. Therefore, support is calculated at 1 1/3 the annual support fee each year over a period of 3 years rather than the normal four year duration (\$22,000 FY 2004, \$22,933 FY 2005)

(3) One (1) public health student is enrolled in an extended degree program. Therefore, support is calculated at 2/3 the annual support fee each year over a period of 3 years rather than the standard two-year program (\$4,000 FY 2004, \$4,133 FY 2005)

(4) The WWAMI support fee is calculated as an average per continuing student. Actual support varies by program year. No additional cost for first year students because they attend school at Bozeman.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Personal Services	489	(489)	0	0	(489)	0	0	0
Operating Expenses	209	17	0	226	17	0	226	452
Grants	47,123	260,684	0	307,807	260,684	0	307,807	615,614
Total Costs	\$47,821	\$260,212	\$0	\$308,033	\$260,212	\$0	\$308,033	\$616,066
Federal Special	47,821	260,212	0	308,033	260,212	0	308,033	616,066
Total Funds	\$47,821	\$260,212	\$0	\$308,033	\$260,212	\$0	\$308,033	\$616,066

Program Description

This program is a federal grant program aimed at upgrading teaching skills of teachers in math and science.

Program Narrative

Dwight D. Eisenhower Mathematics & Science Education Act Major Budget Highlights

- All federal funds, no impact from special session
- Requested adjustment restores historical appropriation level

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor. Funding is entirely federal.

Program Funding Table Dde Mathematics & Sci Ed Act						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
03183 Ed For Econ Security Grant	\$ 47,821	100.0%	\$ 308,033	100.0%	\$ 308,033	100.0%
Grand Total	\$ 47,821	100.0%	\$ 308,033	100.0%	\$ 308,033	100.0%

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				(489)					(489)
Inflation/Deflation				17					17
Total Statewide Present Law Adjustments				(\$472)					(\$472)
DP 31 - Increase Federal Funding - Eisenhower									
0.00	0	0	260,684	260,684	0.00	0	0	260,684	260,684
Total Other Present Law Adjustments									
0.00	\$0	\$0	\$260,684	\$260,684	0.00	\$0	\$0	\$260,684	\$260,684
Grand Total All Present Law Adjustments				\$260,212					\$260,212

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 31 - Increase Federal Funding - Eisenhower - The Eisenhower grant authority is increased \$260,684 annually based upon the expected federal authority plus anticipated carry-over from fiscal 2003.



Actual fiscal 2002 expenditures in this program were approximately 15 percent of the fiscal 2002 HB2 appropriation. This adjustment restores appropriation authority to a more normal level for this program.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Local Assistance	5,843,089	859,380	(918,709)	5,783,760	972,888	(1,032,218)	5,783,759	11,567,519
Total Costs	\$5,843,089	\$859,380	(\$918,709)	\$5,783,760	\$972,888	(\$1,032,218)	\$5,783,759	\$11,567,519
General Fund	5,843,089	859,380	(918,709)	5,783,760	972,888	(1,032,218)	5,783,759	11,567,519
Total Funds	\$5,843,089	\$859,380	(\$918,709)	\$5,783,760	\$972,888	(\$1,032,218)	\$5,783,759	\$11,567,519

Program Description

This program distributes funds appropriated by the Legislature in support of the three community colleges: Miles Community College, Dawson Community College and Flathead Valley Community College. Each community college district has an elected board of trustees. The regents have statutory authority to control the community colleges in Title 20, Chapter 15, MCA.

Program Narrative

Community College Assistance	
Major Budget Highlights	
○	
○	The executive projects enrollment will increase from 2,152 full-time equivalent students in fiscal 2002 to 2,322 in fiscal 2004 and 2,369 in fiscal 2005. The Executive Budget allows for enrollment increases but then negates the increase in order to meet the general fund reduction
○	The budget amount per full-time student increases to \$5,706, reflecting annualization of the 2003 biennium pay plan
○	The state share of the budget amount per full-time student would decrease from 53 percent to approximately 43 percent, assuming that the budget amount per full-time student remains constant
Major LFD Issues	
○	Unclear whether general fund reduction is intended to reduce expenditures at the community colleges or if increases in non-general fund sources are contemplated
○	

State share of funding decreases from 53 percent to approximately 43 percent in the Executive Budget (assuming the total budget per student FTE remains the same). The impact of the state funding reduction is either an increase in local property taxes or tuition, or expenditure reductions. The executive position on whether the state general fund reduction should result in expenditure reductions or increases in non-state funds is not noted in the proposed budget. See Other Issues for more discussion.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Community College Assistance						
	Base	% of Base	Budget	% of Budget	Budget	% of Budget
Program Funding	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 5,843,089	100.0%	\$ 5,783,760	100.0%	\$ 5,783,759	100.0%
Grand Total	\$ 5,843,089	100.0%	\$ 5,783,760	100.0%	\$ 5,783,759	100.0%

The community colleges use the same fund structure as the educational units and higher education agencies.

Title 20, Chapter 15, part 3, MCA defines the financing of Montana community colleges. The general operating budgets of the community colleges are funded from a state general fund appropriation, student tuition and fees, a mandatory levy, an optional voted levy, and other miscellaneous funds. Only the state general fund is appropriated in HB 2.

Figure 6 below illustrates the executive calculation to derive the proposed general fund appropriation for Montana community colleges for the 2005 biennium. As shown in the figure, the impact of the proposed general fund reductions decreases the state share of total budget per FTE student from 53 percent to approximately 43 percent.

Figure 6 Proposed General Fund Appropriation								
Fiscal 2004					Fiscal 2005			
Budget Item	Dawson	Flathead Valley	Miles	TOTAL	Dawson	Flathead Valley	Miles	TOTAL
Projected Resident FTE	419	1,385	518	2,322	435	1,400	534	2,369
Total \$ per FTE	\$5,706	\$5,706	\$5,706	\$5,706	\$5,706	\$5,706	\$5,706	\$5,706
State %	53%	53%	53%	53%	53%	53%	53%	53%
State \$ per FTE	\$3,024	\$3,024	\$3,024	\$3,024	\$3,024	\$3,024	\$3,024	\$3,024
Calculated Budget Cost	\$1,267,056	\$4,188,240	\$1,566,432	\$7,021,728	\$1,315,440	\$4,233,600	\$1,614,816	\$7,163,856
Plus State share of Audit	8,480	11,660	8,480	28,620	0	0	0	0
Total Budget	\$1,275,536	\$4,199,900	\$1,574,912	\$7,050,348	\$1,315,440	\$4,233,600	\$1,614,816	\$7,163,856
Less:								
Special Session Reduction	(65,650)	(200,227)	(82,002)	(347,879)	(65,650)	(200,227)	(82,002)	(347,879)
Meet Gov Target Reduction	(166,211)	(547,276)	(205,222)	(918,709)	(189,538)	(610,006)	(232,674)	(1,032,218)
Executive Budget	\$1,043,675	\$3,452,397	\$1,287,688	\$5,783,760	\$1,060,252	\$3,423,367	\$1,300,140	\$5,783,759
Calculations after Reductions:								
State \$ per FTE	\$2,491	\$2,493	\$2,486	\$2,491	\$2,437	\$2,445	\$2,435	\$2,441

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
DP 3 - Annualize CC Payplan and Adjust Students										
0.00	859,380	0	0	859,380		0.00	972,888	0	0	972,888
Total Other Present Law Adjustments										
0.00	\$859,380	\$0	\$0	\$859,380		0.00	\$972,888	\$0	\$0	\$972,888
Grand Total All Present Law Adjustments				\$859,380						\$972,888

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3 - Annualize CC Payplan and Adjust Students - This decision package annualizes the state share of the pay plan in the per-student support calculation, and updates resident enrollment projections for the 2005 biennium. Enrollments are projected to grow from 2,132 resident students in the fiscal 2002 base to 2,322 students in fiscal 2004 and 2,369 students in fiscal 2005.

The base increase is \$1,207,259 in fiscal 2004 and \$1,320,767 in fiscal 2005. The special session reductions to the community colleges have been applied to this increase. This reduction was \$347,879.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 1000 - Meeting Governor's Target										
04	0.00	(918,709)	0	0	(918,709)	0.00	(1,032,218)	0	0	(1,032,218)
Total	0.00	(\$918,709)	\$0	\$0	(\$918,709)	0.00	(\$1,032,218)	\$0	\$0	(\$1,032,218)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1000 - Meeting Governor's Target - These are the allocated reductions to meet the Governor's general fund target.

LFD COMMENT

The executive proposes an annual general fund appropriation for the community colleges for the 2005 biennium equal to the average annual general fund appropriation in the 2003 biennium, following special session action. The impact of the executive proposal is elimination of state funding for the state portion of the 2003 biennium pay plan and the costs associated with increased enrollment. Part of the general fund reduction is made in the present law adjustment (DP 3 - Annualize CC Payplan and Adjust Students) and the remaining amount of the general fund reduction is made in this decision package. See Figure 6.)

Language Recommendations

Information Technology Costs

The executive recommends the following language to provide for costs of connecting to the state computer network:
 "Total Summitnet costs are estimated to be \$25,000 each year for the community colleges. The general fund appropriation for the community colleges provides 53 percent of the total Summitnet costs. The remaining 47 percent of these costs must be paid from funds other than those appropriated in item (Community Colleges). Summitnet costs for each year may not exceed \$8,000 each for Dawson and Miles Community Colleges and \$9,000 for Flathead Valley Community College."

Audit Costs

The executive recommends the following language to provide for audit costs in the 2005 biennium:
 "Total audit costs are estimated to be \$54,000 for the community colleges for the biennium. The general fund appropriation for each community college provides 53% of the total audit costs in fiscal year 2005. The remaining 47 percent of these costs must be paid from funds other than those appropriated in item (Community Colleges Audit). Audit costs for the biennium may not exceed \$16,000 each for Dawson and Miles Community Colleges and \$22,000 for Flathead Valley Community College."

Other Issues

State statute requires the legislature to determine the budget amount per full-time student for community colleges and for the appropriations act to state the percent of budget per student FTE, which the appropriation is intended to represent. The proposed language in the Executive Budget does not refer to any budget amount per FTE student or to the percentage of the budget amount per FTE student that the general fund appropriation is intended to represent. This language has not been included in the general appropriations act since the 1999 biennium, although it has been presented in the HB 2 narrative accompanying the bill. The executive calculations for its 2005 biennium recommendations use the same budgeted amount per student FTE as was used for the 2003 biennium, plus an adjustment for the 2003 biennium pay plan. However, since the Executive Budget does not include this language, it is unclear if the executive is proposing that total expenditures be reduced at the community colleges or that the state funding reduction be made up via tuition increases or property tax increases.

If the legislature intends for the budget per student FTE to remain at \$5,706 and make up the state funding reduction with tuition, the tuition rates at the community colleges would have to increase, on average, 20 percent each year (compounded) in the 2005 biennium. Alternatively, if the state funding reduction was to be made up with a voted mill levy, the number of additional mills, if approved by the local voters, would range from approximately 4.5 mills for Flathead Valley Community College to 22 mills for Miles Community College. Both Dawson and Miles Community Colleges currently use voted levies to support its general operating budget.

If the legislature intends for the state funding reduction to be real expenditure reductions, the state portion of the community college budgets would decrease 18 to 19 percent in the 2005 biennium from what would otherwise be a present law budget.

Program Description

The Board of Regents provides faculty and staff with group benefits through the Montana University System (MUS) Group Insurance Program. The commissioner is authorized by Board of Regents' policy to administer the program as a self-insured, group insurance plan. All university system employees, retirees, and eligible dependents are offered medical, dental, vision, and group life insurance, as well as long-term disability benefits.

Revenues and Expenses

This program is an enterprise fund in which the funding is derived from: 1) employer health insurance premiums; 2) employee-paid premiums; 3) employee payments to flexible spending accounts; and 4) interest earnings on the fund. Expenditures include administration of the program and insurance claims which are projected to increase 3 percent and 15 percent, respectively, from fiscal 2003 to fiscal 2004 and 0 percent and 15 percent, respectively, from fiscal 2004 to fiscal 2005.

Rate Explanation

The legislature has defined the rates and fees for the MUS employee benefits program to mean the state contribution and the employee contribution toward employee group benefits necessary to maintain the benefit plan on an actuarially sound basis. For 2003, the state contribution per employee is \$4,392, while the average insurance premium for a MUS employee is \$4,397, depending upon the plan selected. Health insurance premiums for MUS employees with a spouse and children average \$6,724 annually, again depending upon the coverage selections, or \$2,332 more than the state contribution. The Executive Budget proposes a \$44 increase in fiscal 2004 and a \$50 increase in fiscal 2005 from the fiscal 2003 state contribution towards the cost of employee health insurance.

Employee premiums depend on the plan selected and whether the contributor is a current employee, employee dependent, or retiree. Payments to a flexible spending account are at the discretion of the employee, subject to a \$10 monthly minimum for those who enroll.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
6513	MUS Group Insurance	MUS 51020	Commissioner of Higher	MUS Group Insurance
6009	Flexible Spending		Education	

	Actual FY00	Actual FY01	Actual FY02	Budgeted FY03	Budgeted FY04	Budgeted FY05
Operating Revenues:						
Fee revenue						
Majority of revenue is from Premium- see below	-	-	-	-	-	-
Net Fee Revenue	-	-	-	-	-	-
Investment Earnings	401,699	500,981	234,544	245,750	245,750	245,750
Securities Lending Income	401,699	3,559	4,227	4,250	4,250	4,250
Premiums	29,109,794	31,534,158	36,343,889	43,356,655	51,086,803	59,281,632
Other Operating Revenues	(213,814)	26,045	235,945	235,913	235,913	235,913
Total Operating Revenues	29,699,378	32,064,743	36,818,605	43,842,568	51,572,716	59,767,545
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	29,699,378	32,064,743	36,818,605	43,842,568	51,572,716	59,767,545
Operating Expenses:						
Personal Services	153,054	148,334	149,992	156,815	173,426	173,298
Other Operating Expenses	28,796,591	31,504,643	36,679,615	43,291,346	50,038,734	57,431,212
Miscellaneous, operating	346,573	356,839	381,695	384,407	384,407	384,407
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	29,296,218	32,009,816	37,211,302	43,832,568	50,596,567	57,988,917
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	29,296,218	32,009,816	37,211,302	43,832,568	50,596,567	57,988,917
Operating Income (Loss)	403,160	54,927	(392,697)	10,000	976,149	1,778,628
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	403,160	54,927	(392,697)	10,000	976,149	1,778,628
Capital Contribution	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	5,172,563	5,575,723	5,630,650	5,237,953	5,247,953	6,224,102
Net Income (Loss)	403,160	54,927	(392,697)	10,000	976,149	1,778,628
Retained Earnings/Fund Balances - June 30	5,575,723	5,630,650	5,237,953	5,247,953	6,224,102	8,002,730
60 days of expenses						
(Total Operating Expenses divided by 6)	4,882,703	5,334,969	6,201,884	7,305,428	8,432,761	9,664,820

Because certain employee benefit plans require a large number of individual premiums for a variety of benefit options, because the portion of these premiums paid by the state is statutorily established in 2-18-703, and because the employee-paid portion of these premiums must be adjusted from time to time to maintain employee group benefit plans on an actuarially sound basis, the legislature defines rates and fees for Montana university system employee benefit programs to mean the state contribution toward employee group benefits defined in 2-18-703 and the employee contribution toward employee group benefits necessary to maintain the employee group benefit plans on an actuarially sound basis.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	20.46	0.00	0.00	20.46	0.00	0.00	20.46	20.46
Personal Services	714,453	81,926	0	796,379	81,449	0	795,902	1,592,281
Operating Expenses	856,708	(5,908)	0	850,800	(5,683)	0	851,025	1,701,825
Capital Outlay	0	0	0	0	0	0	0	0
Grants	904,188	0	0	904,188	0	0	904,188	1,808,376
Total Costs	\$2,475,349	\$76,018	\$0	\$2,551,367	\$75,766	\$0	\$2,551,115	\$5,102,482
General Fund	83,839	8,509	0	92,348	8,389	0	92,228	184,576
Federal Special	2,391,510	67,509	0	2,459,019	67,377	0	2,458,887	4,917,906
Total Funds	\$2,475,349	\$76,018	\$0	\$2,551,367	\$75,766	\$0	\$2,551,115	\$5,102,482

Program Description

The Talent Search program is comprised of three distinct, but related, programs:

- Talent Search, with objectives that include decreasing the high school dropout rate of disadvantaged students in high schools and increasing their enrollment in post-secondary education.
- Minority Achievement, with the primary goal to enroll and graduate American Indian and other minorities in proportion to their representation in the state's population (Board of Regents Policy 1902 Minority Achievement).
- Gear-Up, with two components including
 - an early intervention component that provides activities such as mentoring, counseling, and outreach to students beginning no later than seventh grade; and
 - a scholarship component that may be used to award grants to eligible students under age 22.

Program Narrative

Talent Search Program Major Budget Highlights	
○	General fund reduction will reduce funding for the Minority Achievement program

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Talent Search						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 83,839	3.4%	\$ 92,348	3.6%	\$ 92,228	3.6%
03806 Talent Search	451,717	18.2%	547,270	21.5%	546,788	21.4%
03958 Gear-Up Grant	<u>1,939,793</u>	<u>78.4%</u>	<u>1,911,749</u>	<u>74.9%</u>	<u>1,912,099</u>	<u>75.0%</u>
Grand Total	<u>\$ 2,475,349</u>	<u>100.0%</u>	<u>\$ 2,551,367</u>	<u>100.0%</u>	<u>\$ 2,551,115</u>	<u>100.0%</u>

The Talent Search program is funded 100 percent from federal funds. There are no matching requirements.

The Minority Achievement program is funded 100 percent from state general fund. This program was begun in the late 1980's with a private grant and was approved by the 1991 legislature for general fund support.

The Gear Up program is funded from a five-year federal grant that requires a 50 percent non-federal match. The non-federal match is from in-kind services. The fifth year of the current federal authorization is federal fiscal year 2003. It is unknown if the grant will be reauthorized. The grantee has up to 27 months following the grant award to expend grant funds.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					115,107					114,613
Vacancy Savings					(33,181)					(33,164)
Inflation/Deflation					157					361
Fixed Costs					70					91
Total Statewide Present Law Adjustments					\$82,153	\$81,901				
DP 7010 - Global Special Session Reductions										
	0.00	(6,135)	0	0	(6,135)	0.00	(6,135)	0	0	(6,135)
Total Other Present Law Adjustments										
	0.00	(\$6,135)	\$0	\$0	(\$6,135)	0.00	(\$6,135)	\$0	\$0	(\$6,135)
Grand Total All Present Law Adjustments					\$76,018	\$75,766				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7010 - Global Special Session Reductions - This adjustment continues the special session reduction that was applied to the Minority Achievement Program.

LFD COMMENT

This program has historically experienced some vacancy savings. The proposed reduction, therefore, may be absorbed relatively easily.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	5.00	0.00	0.00	5.00	0.00	0.00	5.00	5.00
Personal Services	234,165	(27,896)	0	206,269	(27,461)	0	206,704	412,973
Operating Expenses	198,527	(97,989)	0	100,538	(97,936)	0	100,591	201,129
Capital Outlay	0	0	0	0	0	0	0	0
Grants	2,213,909	825,040	0	3,038,949	825,040	0	3,038,949	6,077,898
Transfers	5,140,179	(1,599,517)	0	3,540,662	(1,599,517)	0	3,540,662	7,081,324
Total Costs	\$7,786,780	(\$900,362)	\$0	\$6,886,418	(\$899,874)	\$0	\$6,886,906	\$13,773,324
General Fund	65,279	9,020	0	74,299	9,020	0	74,299	148,598
Federal Special	7,721,501	(909,382)	0	6,812,119	(908,894)	0	6,812,607	13,624,726
Total Funds	\$7,786,780	(\$900,362)	\$0	\$6,886,418	(\$899,874)	\$0	\$6,886,906	\$13,773,324

Program Description

The Office of the Commissioner of Higher Education and the Office of Public Instruction coordinate the primarily federal efforts to support vocational education at the secondary and post-secondary levels.

Program Narrative

Workforce Development Program

Major Budget Highlights

- o Special session reductions are made in personal services.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Work Force Development Pgm						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 65,279	0.8%	\$ 74,299	1.1%	\$ 74,299	1.1%
03215 Carl Perkins Federal Funds	5,044,306	64.8%	6,047,330	87.8%	6,047,818	87.8%
03808 School To Work Grant	2,153,746	27.7%	-	-	-	-
03951 Tech Prep Grant	523,449	6.7%	764,789	11.1%	764,789	11.1%
03958 Gear-Up Grant	-	-	-	-	-	-
Grand Total	\$ 7,786,780	100.0%	\$ 6,886,418	100.0%	\$ 6,886,906	100.0%

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					29,873					30,222
Vacancy Savings					(10,562)					(10,575)
Inflation/Deflation					271					325
Fixed Costs					(29)					(19)
Total Statewide Present Law Adjustments					\$19,553					\$19,953
DP 81 - Federal Funds Adjustments										
0.00	0		0	(914,214)	(914,214)	0.00	0	0	(914,126)	(914,126)
DP 7010 - Global Special Session Reductions										
0.00	(5,701)		0	0	(5,701)	0.00	(5,701)	0	0	(5,701)
Total Other Present Law Adjustments										
0.00	(\$5,701)		\$0	(\$914,214)	(\$919,915)	0.00	(\$5,701)	\$0	(\$914,126)	(\$919,827)
Grand Total All Present Law Adjustments					(\$900,362)					(\$899,874)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 81 - Federal Funds Adjustments - This adjustment is a net of the following: 1) removal of the School to Work federal program from the base year, totaling \$2.1 million; and 2) the Carl Perkins vocational grant increases \$1.2 million based upon the expected federal authority plus anticipated carryover from fiscal 2003.

DP 7010 - Global Special Session Reductions - The Executive Budget continues the special session reductions that were applied to the Workforce Development Program.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	0	0	0	0	0	0	0	0
Transfers	135,450,085	4,782,870	(6,299,126)	133,933,829	5,585,808	(7,105,514)	133,930,379	267,864,208
Total Costs	\$135,450,085	\$4,782,870	(\$6,299,126)	\$133,933,829	\$5,585,808	(\$7,105,514)	\$133,930,379	\$267,864,208
General Fund	122,831,449	4,300,506	(6,299,126)	120,832,829	4,975,445	(7,105,514)	120,701,380	241,534,209
State/Other Special	12,618,636	482,364	0	13,101,000	610,363	0	13,228,999	26,329,999
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$135,450,085	\$4,782,870	(\$6,299,126)	\$133,933,829	\$5,585,808	(\$7,105,514)	\$133,930,379	\$267,864,208

Program Description

The Appropriation Distribution Program in the Office of the Commissioner of Higher Education (OCHE) is the conduit through which state funds flow to: 1) the university system units and colleges of technology and other campus related appropriations, and 2) the research/public service agencies.

The program budget is organized in this text as listed below. Present law and new proposal adjustments and explanations are included with the following subdivisions:

- o Educational Units
- o Agricultural Experiment Station (AES)
- o Extension Service (ES)
- o Forestry and Conservation Experiment Station (FCES)
- o Montana Bureau of Mines (Bureau)
- o Fire Services Training School (FSTS)
- o Miscellaneous System Transfers, including distance learning, family practice residency, UM Yellow Bay, motorcycle safety, and AES Bio-based Institute

Program Narrative

Appropriation Distribution Program Major Budget Highlights	
- o Executive Budget proposes approximate same general fund in the 2005 biennium as was appropriated in the 2003 biennium - o Student enrollment increases are anticipated, but not funded, in the Executive Budget - o Statewide present law adjustments, such as fixed cost increases and annualization of the 2003 pay plan, are not funded in the Executive Budget	
Major LFD Issues	
o Future tuition impact	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Appropriation Distribution						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 122,831,449	90.7%	\$ 120,832,829	90.2%	\$ 120,701,380	90.1%
02289 Bureau Of Mines Groundwater	600,000	0.4%	666,000	0.5%	666,000	0.5%
02443 University Millage	11,868,912	8.8%	12,235,000	9.1%	12,362,999	9.2%
02944 Motorcycle Safety	149,724	0.1%	200,000	0.1%	200,000	0.1%
Grand Total	<u>\$ 135,450,085</u>	<u>100.0%</u>	<u>\$ 133,933,829</u>	<u>100.0%</u>	<u>\$ 133,930,379</u>	<u>100.0%</u>

Present Law Adjustments

Present Law Adjustments	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7 - Dental Hygiene Program	0.00	119,683	0	0	119,683	0.00	119,683	0	0	119,683
DP 92 - Motorcycle Safety Training Adjust to Rev. Est.	0.00	0	50,276	0	50,276	0.00	0	50,276	0	50,276
DP 99 - NPQB Accreditation Fee	0.00	2,000	0	0	2,000	0.00	2,000	0	0	2,000
DP 903 - Adjust Groundwater Account	0.00	0	66,000	0	66,000	0.00	0	66,000	0	66,000
DP 906 - Water, Sewer, Elevator, Small Misc.	0.00	63,292	0	0	63,292	0.00	81,174	0	0	81,174
DP 907 - Recharge & Admin. Assessment	0.00	(197,956)	0	0	(197,956)	0.00	(194,791)	0	0	(194,791)
DP 999 - Helena and Great Falls COT Switch	0.00	0	0	0	0	0.00	0	0	0	0
DP 7800 - Statewide Adjustments - Educational Units	0.00	4,740,138	0	0	4,740,138	0.00	5,554,838	0	0	5,554,838
DP 7801 - Statewide Adjustments -AES	0.00	(165,419)	0	0	(165,419)	0.00	(181,145)	0	0	(181,145)
DP 7802 - Statewide Adjustments - ES	0.00	41,501	0	0	41,501	0.00	30,797	0	0	30,797
DP 7803 - Statewide Adjustments - BoM	0.00	(19,552)	0	0	(19,552)	0.00	(22,352)	0	0	(22,352)
DP 7804 - Statewide Adjustments - FCES	0.00	59,623	0	0	59,623	0.00	57,262	0	0	57,262
DP 7805 - Statewide Adjustments - FSTS	0.00	23,284	0	0	23,284	0.00	22,066	0	0	22,066
Total Other Present Law Adjustments	0.00	\$4,666,594	\$116,276	\$0	\$4,782,870	0.00	\$5,469,532	\$116,276	\$0	\$5,585,808
Grand Total All Present Law Adjustments					\$4,782,870					\$5,585,808

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 920 - Yellow Bay										
09	0.00	98,250	0	0	98,250	0.00	98,250	0	0	98,250
DP 922 - Beef Transfer Position - ES										
09	0.00	90,000	0	0	90,000	0.00	90,000	0	0	90,000
DP 7900 - Achieving the Governor's Target - Lump Programs										
09	0.00	(6,144,936)	0	0	(6,144,936)	0.00	(6,924,870)	0	0	(6,924,870)
DP 7901 - Achieving the Governor's Target - AES										
09	0.00	(155,482)	0	0	(155,482)	0.00	(182,350)	0	0	(182,350)
DP 7902 - Achieving the Governor's Target - ES										
09	0.00	(87,415)	0	0	(87,415)	0.00	(92,808)	0	0	(92,808)
DP 7903 - Achieving the Governor's Target - BoM										
09	0.00	2,371	0	0	2,371	0.00	5,171	0	0	5,171
DP 7904 - Achieving the Governor's Target - FCES										
09	0.00	(68,065)	0	0	(68,065)	0.00	(65,704)	0	0	(65,704)
DP 7905 - Achieving the Governor's Target - FSTS										
09	0.00	(33,849)	0	0	(33,849)	0.00	(33,203)	0	0	(33,203)
Total	0.00	(\$6,299,126)	\$0	\$0	(\$6,299,126)	0.00	(\$7,105,514)	\$0	\$0	(\$7,105,514)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

Sub-Program Details

EDUCATIONAL UNITS -SP 01

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	0	0	0	0	0	0	0	0
Transfers	116,716,557	4,512,897	(6,144,936)	115,084,518	5,289,381	(6,924,870)	115,081,068	230,165,586
Total Costs	\$116,716,557	\$4,512,897	(\$6,144,936)	\$115,084,518	\$5,289,381	(\$6,924,870)	\$115,081,068	\$230,165,586
General Fund	104,847,645	4,146,809	(6,144,936)	102,849,518	4,795,294	(6,924,870)	102,718,069	205,567,587
State/Other Special	11,868,912	366,088	0	12,235,000	494,087	0	12,362,999	24,597,999
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$116,716,557	\$4,512,897	(\$6,144,936)	\$115,084,518	\$5,289,381	(\$6,924,870)	\$115,081,068	\$230,165,586

Sub-Program Description

This sub-program includes the state appropriations for the university units and colleges of technology.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7 - Dental Hygiene Program									
0.00	119,683	0	0	119,683	0.00	119,683	0	0	119,683
DP 906 - Water, Sewer, Elevator, Small Misc.									
0.00	63,292	0	0	63,292	0.00	81,174	0	0	81,174
DP 907 - Recharge & Admin. Assessment									
0.00	(444,847)	0	0	(444,847)	0.00	(500,945)	0	0	(500,945)
DP 999 - Helena and Great Falls COT Switch									
0.00	0	0	0	0	0.00	0	0	0	0
DP 7800 - Statewide Adjustments - Educational Units									
0.00	4,774,769	0	0	4,774,769	0.00	5,589,469	0	0	5,589,469
Total Other Present Law Adjustments									
0.00	\$4,512,897	\$0	\$0	\$4,512,897	0.00	\$5,289,381	\$0	\$0	\$5,289,381
Grand Total All Present Law Adjustments				\$4,512,897					\$5,289,381

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7 - Dental Hygiene Program - The Executive Budget continues the appropriation for the dental hygiene program at the same level that was approved in HB 395 of the 2001 legislative session for the Great Falls College of Technology.

LFD COMMENT

The agency has noted it will need approximately \$230,000 per year in state support to operate the program in fiscal 2004 and 2005.

DP 906 - Water, Sewer, Elevator, Small Misc. - The Executive Budget includes an adjustment for the state share of water, sewer, and other miscellaneous items reported by the educational units and research agencies.

DP 907 - Recharge & Admin. Assessment - The executive proposes adjustments to the state share of recharges on the MSU campus and to the administrative assessment at UM-Missoula. These adjustments are summarized in Figure 7 below.

Figure 7
Proposed Recharge Adjustments - Decision Package 907
2005 Biennium Executive Budget

<u>Unit</u>	<u>FY 2004</u>	<u>FY 2005</u>
UM-Missoula	(\$171,045)	(\$159,704)
MSU-Bozeman	(273,802)	(341,241)
Ag. Experiment Station	198,876	241,470
Extension Service	41,678	57,755
Fire Services	<u>6,337</u>	<u>6,909</u>
Net Adjustment	(\$197,956)	(\$194,811)

DP 7800 - Statewide Adjustments - Educational Units - The Executive Budget includes the state share of present law adjustments for the educational units of \$8,312,766 and \$7,919,733 in fiscal 2004 and fiscal 2005 respectively. This increase is reduced \$2,920,059 and \$1,708,623 to continue the special session reductions to the education units. Special session reductions were first used to zero-out present law adjustments for enrollment growth, fee waivers and the \$100 per resident student increase.

LFD COMMENT

The Executive Budget reduced the statewide present law adjustments for the educational units by \$3,537,998 in fiscal 2004 and \$2,330,264 in fiscal 2005 to continue the special session reductions to the education units instead of the amounts noted in the preceding explanatory paragraph.

New Proposals										
Sub Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 7900 - Achieving the Governor's Target -Lump Programs										
01	0.00	(6,144,936)	0	0	(6,144,936)	0.00	(6,924,870)	0	0	(6,924,870)
Total	0.00	(\$6,144,936)	\$0	\$0	(\$6,144,936)	0.00	(\$6,924,870)	\$0	\$0	(\$6,924,870)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7900 - Achieving the Governor's Target -Lump Programs - The Executive Budget reduces the general fund appropriation to keep within its proposed budget for the 2005 biennium.

The Office of the Commissioner of Higher Education (OCHE) has indicated that the Board of Regents will make the final determination of reductions. The Board of Regents will be meeting November 21-22, 2002, to begin to take up this issue. Ideas brought forward by the OCHE to the Office of Budget and Program Planning include:

- o Continue the reductions made in fiscal 2003 for Baker Grants (MTAP). CHE may also need to look at additional reductions in this area.
- o Reduce the WICHE/WWAMI/Minnesota Dental slots available for Montana students to pursue professional education. CHE is limited to reducing new student slots in this program.
- o Additional program reviews, which identify programs with low productivity for examination and potential elimination, would continue and standards for review may be increased.
- o OCHE will continue to press for administrative consolidation where potential efficiencies can be identified through these actions.
- o Continue the tuition surcharge.
- o Consider additional across-the-board and specific program reductions for the campuses.
- o Consider additional tuition increases beyond the revenue raised by the current tuition surcharges.

**LFD
COMMENT**

Figure 8 summarizes the proposed Executive Budget and adjustments for the Appropriation Distribution program. The Executive Budget proposed the general fund appropriation for the Montana University System be established at the average of fiscal 2002 and fiscal 2003, following special session reductions. Following standard budget preparation procedure, the base budget is adjusted for statewide and other present law adjustments. In order to keep the 2005 budget within the proposed dollar amount, the executive applied the special session reductions to the present law adjustments and an additional reduction as a new proposal.

Figure 8
Appropriation Distribution Program -- 2005 Biennium Executive Budget Proposal
General Fund Only

	Actual Fiscal 2002	SW PLA (State Share) Fiscal 2004	Other PL Adjustments Fiscal 2004	SS Reductions Fiscal 2004	Other Exec. Reductions Fiscal 2004	Executive Budget* Fiscal 2004	SW PLA (State Share) Fiscal 2005	Other PL Adjustments Fiscal 2005	SS Reductions Fiscal 2005	Other Exec. Reductions Fiscal 2005	Executive Budget* Fiscal 2005	2005 Biennial Total
Educational Units												
UM-Missoula	\$32,716,137	\$2,564,859	(\$171,045)	\$0	\$0	\$34,839,993	\$2,459,237	(\$159,704)	\$0	\$0	\$34,809,735	\$69,649,728
MSU-Bozeman	35,009,435	3,194,186	(228,939)	0	0	37,923,034	3,113,838	(286,215)	0	0	37,682,241	75,605,275
UM-MT Tech	8,887,821	610,538	7,669	0	0	9,496,643	554,879	7,669	0	0	9,422,237	18,918,880
MSU-Billings	12,715,271	833,554	3,120	0	0	13,531,161	773,189	6,433	0	0	13,432,593	26,963,754
MSU-Northern	5,993,154	417,859	0	0	0	6,402,661	386,935	0	0	0	6,355,054	12,757,715
UM-Western	3,952,725	233,226	0	0	0	4,179,990	202,684	0	0	0	4,137,541	8,317,531
Great Falls COT **	3,039,104	310,043	119,683	0	0	3,468,830	298,160	119,683	0	0	3,456,947	6,925,777
Helena COT**	2,433,998	148,502	7,640	0	0	2,590,140	130,811	12,046	0	0	2,576,855	5,166,995
Transfers General	100,000	0	0	(3,537,998)	(6,144,936)	(9,582,934)	0	0	(2,330,264)	(6,924,870)	(9,155,134)	(18,738,068)
Family Practice Residency	341,200	0	0	(21,834)	0	319,366	0	0	(21,834)	0	319,366	638,732
Distant Learning	100,000	0	0	(12,798)	0	87,202	0	0	(12,798)	0	87,202	174,404
Yellow Bay	0	0	0	0	98,250	98,250	0	0	0	98,250	98,250	196,500
Other	0	0	0	0	0	0	0	0	0	0	0	0
Enrollment Growth	0	0	3,515,929	(3,515,929)	0	0	0	4,635,663	(4,635,663)	0	0	0
Continuation of \$100 resident inc.	0	0	2,500,000	(2,500,000)	0	0	0	2,500,000	(2,500,000)	0	0	0
Fee Waiver Inc. -- 50%	0	0	903,000	(903,000)	0	0	0	991,000	(991,000)	0	0	0
Subtotal	\$105,288,845	\$8,312,767	\$6,657,057	(\$10,491,559)	(\$6,046,686)	\$103,354,336	\$7,919,733	\$7,826,575	(\$10,491,559)	(\$6,826,620)	\$103,222,887	\$206,577,223
Research/Public Service Agencies												
AES	\$10,102,324	\$627,977	\$198,876	(\$793,396)	(\$155,482)	\$9,980,299	\$612,251	\$241,470	(\$793,396)	(\$182,350)	\$9,980,299	\$19,960,598
Extension Services	4,242,336	341,166	41,678	(299,665)	(87,415)	4,238,100	330,462	57,775	(299,665)	(92,808)	4,238,100	8,476,200
FCES	919,661	113,881	0	(54,258)	(68,065)	911,219	111,520	0	(54,258)	(65,704)	911,219	1,822,438
Bureau of Mines	1,570,646	75,171	0	(94,723)	2,371	1,553,465	72,371	0	(94,723)	5,171	1,553,465	3,106,930
FSTS	507,637	52,413	8,337	(29,129)	(33,849)	505,409	51,195	8,909	(29,129)	(33,203)	505,409	1,010,818
Beef Transfer Position	0	0	0	0	90,000	90,000	0	0	0	90,000	90,000	180,000
AES BioBased	200,000	0	0	0	0	200,000	0	0	0	0	200,000	400,000
Subtotal	\$17,542,604	\$1,210,608	\$248,891	(\$1,271,171)	(\$252,440)	\$17,478,492	\$1,177,799	\$308,154	(\$1,271,171)	(\$278,894)	\$17,478,492	\$34,956,984
GRAND TOTAL PROGRAM 09	\$122,831,449	\$9,523,375	\$6,905,948	(\$11,762,730)	(\$6,299,126)	\$120,832,828	\$9,097,532	\$8,134,729	(\$11,762,730)	(\$7,105,514)	\$120,701,379	\$241,534,207

*Executive Budget includes a base funding switch reducing general fund and increasing the statewide six-mill levy by \$366,088 in fiscal 2004 and \$494,087 in fiscal 2005.

**Reflects correction of accounting error. Base year expenditures reported for Helena College of Technology included \$771,611 of expenditures belonging to Great Falls College of Technology.

Language Recommendations

Other Appropriated Revenue

The executive proposes the following language identifying the kind and amount of other revenue supporting the general operating budgets of the educational units but not included in the line items in HB 2.

"Revenue appropriated to the Montana university system units and colleges of technology includes:

- (1) state special revenue from interest earnings of \$1,460,000 each year of the 2005 biennium;
- (2) tuition revenue of \$151,512,000 in fiscal year 2004 and \$153,414,000 in fiscal year 2005; and
- (3) other revenue of \$1,183,000 each year of the 2005 biennium.

These amounts are appropriated for current unrestricted operating expenses as a biennial lump-sum appropriation and are in addition to the funds shown in [Educational Units]."

Transfer to Debt Service

The executive proposes the following language that directs a transfer from the university system to pay debt service costs on general obligation bonds sold to fund energy improvements at the campuses. This language has been inserted into HB 2 for several biennia.

"Item [Educational Units] includes \$1,024,220 in each year of the biennium that must be transferred to the energy conservation program account and used to retire the general obligation bonds sold to fund energy improvements through the state energy conservation program. The costs of this transfer in each year of the biennium are: university of Montana-Missoula, \$157,100 in fiscal year 2004 and \$135,100 in fiscal year 2005; Montana tech of the university of Montana, \$28,000; Montana state university-northern, \$87,800 in fiscal year 2004 and \$83,800 in fiscal year 2005; Montana state university-Bozeman \$58,000; Montana state university-Billings, \$161,500; and western Montana college of the university of Montana, \$12,410."

Support for Montana Natural Resources Information System

"Item [Educational Units] includes a total of \$44,253 of general fund money for the 2005 biennium for the Montana natural resources information system (NRIS). The Montana university system shall pay an additional \$44,253 for the 2005 biennium in current funds in support of NRIS. Quarterly payments must be made upon receipt of the bills from the state library, up to the total amount appropriated."

Legislative Audit Costs

"Total audit costs are estimated to be \$473,188 for the university system other than the office of the commissioner of higher education. Each unit shall pay a percentage of these costs from funds other than those appropriated in item [Educational Units - Legislative Audit]."

Other Issues

LFD ISSUE

Impact of Executive Budget on Education Units

In order for the legislature to get an understanding of what the real impact of the proposed Executive Budget will be on the Montana University System, it needs to know the Board of Regent's intent for how much of the special session reduction (and if approved, the additional reduction contained in the Executive Budget) is a permanent expenditure reduction and how much of the reduction will be permanently made up via tuition increases. The board has not yet made that decision. Until that is known, everything is just speculation.

For fiscal 2003, the board approved tuition surcharges intended to recover no more than one-half of the special session general fund reduction. Tuition surcharges approved by the board in September 2002 averaged 8.0 percent on top of the average 11.8 percent rate increase⁷ from fiscal 2002 to fiscal 2003 authorized by the board in May 2002. Enrollment increases have resulted in higher-than-anticipated tuition revenue and at the November 2002 meeting, the board authorized reductions in the tuition surcharge. Tuition surcharges are expected to recover about 45 percent of the special session reductions, other revenue accounts for about 2 percent, and expenditure reductions make up the remaining 53 percent.

⁷ Weighted average tuition increase, all campuses, resident undergraduate student

**LFD
ISSUE
(Cont.)**

Having prefaced this issue with those remarks, the remainder of the issue will attempt to address the impact using various assumptions on expenditure reductions/tuition increases.

What is the fiscal impact?

The proposed Executive Budget for the educational units of the Montana University System reduces state general fund \$16.5 million in fiscal 2004 and \$17.3 million in fiscal 2005 from the fiscal 2002 base, a total reduction of \$33.8 million, or about 12 percent from the 2003 biennium.

The executive used almost one-quarter of the proposed reduction to offset the present law adjustment for enrollment increases and another 15 percent was used to offset a \$100 per resident student increase authorized by the 2001 legislature. However, the executive offers no insight to the service impact this reduction could have on the college campuses.

A large portion of the proposed reduction, \$18.7 million, over one-half, is non-specific. The executive has suggested a few areas within the Montana University System budget that may be considered for reduction. (These are listed in the decision package description for DP 7900). One area suggested for closer scrutiny is the student assistance program that contains state funding for student assistance grants (Baker grants), state work-study, and interstate professional student exchange program support. The interstate professional student exchange program provides Montana students access to professional education in other states, such as medicine and veterinary science, not available in Montana. Student assistance grants and work-study are intended to help Montana students gain access to postsecondary education. The entire budget for the student assistance program could be eliminated by the legislature and there would remain approximately \$1.3 million yet to cut from the unspecified reduction.

Put into another context, the total \$33.8 million proposed budget reduction represents two-years' compensation for approximately 235 associate professors at Montana State University-Bozeman (MSU-Bozeman reported 145.8 FTE Associate Professors supported by current unrestricted operating funds in fiscal 2003). The entire current unrestricted budgets (state funds and tuition, which is not appropriated) for MSU-Northern, MSU-College of Technology Great Falls, UM-Western, and UM-College of Technology Helena for fiscal 2003 total approximately \$30.0 million.

With a reduction of \$33.8 million, the university campuses will have an average of \$622 less state support each year per Montana student to provide education services.

Tuition Impact

Another suggestion offered by the executive to address potential state funding reductions is to continue and/or increase the tuition surcharges currently authorized by the Board of Regents. In order to recover the \$33.8 million proposed reduction through tuition increases, the tuition rates would have to increase about three and one-half percent a year on top of the current surcharges. In other words, the tuition rate surcharges would become permanent and tuition rates would increase another three and one-half percent per year in the 2005 biennium.

On the other hand, the Board of Regents may decide to make some of the fiscal 2003 expenditure reductions permanent. If the board orders one-half of the proposed reductions to be recovered via tuition increases and one-half to become permanent expenditure reductions, the current tuition surcharges could be reduced and no further increases would be necessary (unless there are other budget initiatives sought by the Board or enrollment is significantly less than projected).

LFD
ISSUE
(Cont.)

Figure 9 summarizes the estimated tuition changes resulting from potential Board of Regents decisions on how to implement state funding reductions authorized by the 2003 legislature. Also included at the bottom of the figure is the estimated percent of state funds supporting the educational units current unrestricted budget (state funds and tuition) for the various scenarios of how the board handles the state funding reductions.

Figure 9			
Summary of Estimated Tuition Changes and Percent State Support			
Board of Regents Implementation of Proposed Executive Budget Reduction			
Educational Units -- 2005 Biennium			
	No Expenditure Reduction	One-Half Expenditure Reduction	All Expenditure Reduction
From FY03 Tuition with Surcharge	3.5%/yr increase	Reduce Tuition	Reduce Tuition
From FY03 Tuition without Surcharge	7.0%/yr increase	2.5%/yr increase	Reduce Tuition
Percent State Funds	42.3%	43.8%	45.3%

Sub-Program Details

AES TRANSFERS - SP 09

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transfers	10,102,324	33,457	(155,482)	9,980,299	60,325	(182,350)	9,980,299	19,960,598
Total Costs	\$10,102,324	\$33,457	(\$155,482)	\$9,980,299	\$60,325	(\$182,350)	\$9,980,299	\$19,960,598
General Fund	10,102,324	33,457	(155,482)	9,980,299	60,325	(182,350)	9,980,299	19,960,598
Total Funds	\$10,102,324	\$33,457	(\$155,482)	\$9,980,299	\$60,325	(\$182,350)	\$9,980,299	\$19,960,598

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 907 - Recharge & Admin. Assessment	0.00	198,876	0	0	198,876	0.00	241,470	0	0	241,470
DP 7801 - Statewide Adjustments -AES	0.00	(165,419)	0	0	(165,419)	0.00	(181,145)	0	0	(181,145)
Total Other Present Law Adjustments	0.00	\$33,457	\$0	\$0	\$33,457	0.00	\$60,325	\$0	\$0	\$60,325
Grand Total All Present Law Adjustments					\$33,457					\$60,325

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 907 - Recharge & Admin. Assessment - The executive proposes adjustments to the state share of recharges on the MSU campus and to the administrative assessment at UM-Missoula.

LFD
COMMENT

See DP 907 - Recharge & Administrative Assessment description and table in the Educational Units subprogram narrative for additional information.

DP 7801 - Statewide Adjustments -AES - The Executive Budget proposed statewide adjustments include the state share of present law adjustments, \$627,977 in fiscal 2004 and \$612,251 in fiscal 2005, offset by continuing the special session reductions of \$793,396. To respond to the state funding reduction in fiscal 2003, AES reduced personal services \$346,835 by eliminating five faculty and three professional positions, reduced operating expenses \$53,561, and reduced equipment \$393,000.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7901 - Achieving the Governor's Target - AES										
09	0.00	(155,482)	0	0	(155,482)	0.00	(182,350)	0	0	(182,350)
Total	0.00	(\$155,482)	\$0	\$0	(\$155,482)	0.00	(\$182,350)	\$0	\$0	(\$182,350)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7901 - Achieving the Governor's Target - AES - The executive proposes the general fund appropriation for the Agricultural Experiment Station be based on the average of the fiscal 2002 and fiscal 2003 appropriation after the special session. To achieve this proposed funding level, the executive reduces state funding by an additional \$155,482 and \$182,350 in fiscal 2004 and fiscal 2005 respectively. AES is considering a plan to eliminate positions that are beyond the 5 faculty positions lost in the fiscal 2003 special session reductions.

LFD
COMMENT

See comment on DP 7900 in the Educational Units section and Figure 8 on page E-129 for more information on the Executive Budget reductions.

Language Recommendations

Other Revenue

The executive proposes the following language that identifies the source and estimated amount of non-state funds that are used to fund the general operating budget of the Agricultural Experiment Station:

"Revenue appropriated to the agricultural experiment station includes:

- (1) state special revenue from interest earnings and other revenue of \$184,472 each year of the 2005 biennium;
- (2) federal revenue of \$2,022,075 in fiscal year 2004 and \$2,022,078 in fiscal year 2005; and
- (3) proprietary revenue from sales of \$939,881 in fiscal year 2004 and \$939,881 in fiscal year 2005.

These amounts are appropriated for current unrestricted operating expenses and are in addition to the funds shown in (Agricultural Experiment Station)."

Sub-Program Details

EXTENSION SERVICE TRF - SP 10

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transfers	4,242,336	83,179	2,585	4,328,100	88,572	(2,808)	4,328,100	8,656,200
Total Costs	\$4,242,336	\$83,179	\$2,585	\$4,328,100	\$88,572	(\$2,808)	\$4,328,100	\$8,656,200
General Fund	4,242,336	83,179	2,585	4,328,100	88,572	(2,808)	4,328,100	8,656,200
Total Funds	\$4,242,336	\$83,179	\$2,585	\$4,328,100	\$88,572	(\$2,808)	\$4,328,100	\$8,656,200

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 907 - Recharge & Admin. Assessment										
0.00	41,678		0	0	41,678	0.00	57,775	0	0	57,775
DP 7802 - Statewide Adjustments - ES										
0.00	41,501		0	0	41,501	0.00	30,797	0	0	30,797
Total Other Present Law Adjustments										
0.00	\$83,179		\$0	\$0	\$83,179	0.00	\$88,572	\$0	\$0	\$88,572
Grand Total All Present Law Adjustments				\$83,179						\$88,572

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 907 - Recharge & Admin. Assessment - The executive proposes adjustments to the state share of recharges on the MSU campus and to the administrative assessment at UM-Missoula.

LFD
COMMENT

See DP 907 - Recharge & Administrative Assessment description and table in the Educational Units subprogram narrative for additional information.

DP 7802 - Statewide Adjustments - ES - The Executive Budget proposed statewide adjustments include the state share of present law adjustments, \$341,166 in fiscal 2004 and \$330,462 in fiscal 2005, offset by continuing the special session reductions of \$299,665. To achieve the reductions of the special session, ES eliminated support to the local government center by \$25,000, discontinued partial support to animal and range associate positions by \$8,000, reduced the operations and equipment \$40,000, reduced the director's operations budget \$29,594, reduced the publications budget \$13,000, reduced specialist operations \$32,410, reduced the capital and operations budget \$33,000, and left open other agent and specialist positions, saving \$118,661.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 922 - Beef Transfer Position - ES										
10	0.00	90,000	0	0	90,000	0.00	90,000	0	0	90,000
DP 7902 - Achieving the Governor's Target - ES										
10	0.00	(87,415)	0	0	(87,415)	0.00	(92,808)	0	0	(92,808)
Total	0.00	\$2,585	\$0	\$0	\$2,585	0.00	(\$2,808)	\$0	\$0	(\$2,808)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 922 - Beef Transfer Position - ES - The executive proposes continuing the Beef Transfer Position with the Montana Extension Service. The appropriation was established as a one-time-only appropriation in the 2003 biennium.

DP 7902 - Achieving the Governor's Target - ES - The executive proposes the general fund appropriation for the Extension Service be based on the average of the fiscal 2002 and fiscal 2003 appropriation after the special session. To achieve this proposed funding level, the executive reduces state funding by an additional \$87,415 and \$92,808 in fiscal 2004 and fiscal 2005 respectively. ES has indicated that they will carry forward the fiscal 2003 special session reductions to achieve the reduction.

LFD COMMENT

See comment on DP 7900 in the Educational Units section and Figure 8 on page E-129 for more information on the Executive Budget reductions.

Language Recommendations

Other Revenue

The executive proposes the following language that identifies the source and estimated amount of non-state funds that are used to fund the general operating budget of the Extension Service:

"Revenue appropriated to the extension service includes:

- (1) state special revenue from interest earnings of \$20,606 each year of the 2005 biennium; and
- (2) federal revenue of \$2,490,698 in fiscal year 2004 and \$2,485,644 in fiscal year 2005.

These amounts are appropriated for current unrestricted operating expenses and are in addition to the funds shown in item (Extension Station)."

Montana Beef Network

The executive proposes continuing the language that establishes the funding for the Montana beef network as a one-time-only appropriation:

"General fund money of \$90,000 each year of the 2005 biennium in item (Montana Beef Network) is a biennial, one-time-only appropriation for one staff person and for expenses for the Montana beef network within the extension service."

Sub-Program Details

FCES TRANSFER - SP 11

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transfers	919,661	59,623	(68,065)	911,219	57,262	(65,704)	911,219	1,822,438
Total Costs	\$919,661	\$59,623	(\$68,065)	\$911,219	\$57,262	(\$65,704)	\$911,219	\$1,822,438
General Fund	919,661	59,623	(68,065)	911,219	57,262	(65,704)	911,219	1,822,438
Total Funds	\$919,661	\$59,623	(\$68,065)	\$911,219	\$57,262	(\$65,704)	\$911,219	\$1,822,438

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 7804 - Statewide Adjustments - FCES										
0.00	59,623	0	0	59,623	0.00	57,262	0	0	57,262	
Total Other Present Law Adjustments										
0.00	\$59,623	\$0	\$0	\$59,623	0.00	\$57,262	\$0	\$0	\$57,262	
Grand Total All Present Law Adjustments				\$59,623					\$57,262	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7804 - Statewide Adjustments - FCES - The Executive Budget proposed statewide adjustments include the state share of present law adjustments, \$113,881 in fiscal 2004 and \$111,520 in fiscal 2005, offset by continuing the special session reductions of \$54,258. To manage the fiscal 2003 expenditure reduction, FCES reduced personal services and operating expenses.

New Proposals										
-----Fiscal 2004-----					-----Fiscal 2005-----					
Sub Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7904 - Achieving the Governor's Target - FCES										
11	0.00	(68,065)	0	0	(68,065)	0.00	(65,704)	0	0	(65,704)
Total	0.00	(\$68,065)	\$0	\$0	(\$68,065)	0.00	(\$65,704)	\$0	\$0	(\$65,704)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7904 - Achieving the Governor's Target - FCES - The executive proposes the general fund appropriation for the Forest and Conservation Experiment Station be based on the average of the fiscal 2002 and fiscal 2003 appropriation after the special session. To achieve this proposed funding level, the executive reduces state funding by an additional \$68,065 and \$65,704 in fiscal 2004 and fiscal 2005 respectively. The agency will continue to look at reducing personal service reductions since its budget is primarily personal services.



See comment on DP 7900 in the Educational Units section and Figure 8 on page E-129 for more information on the Executive Budget reductions.

Language Recommendations

Other Revenue

The executive proposes the following language that identifies the source and estimated amount of non-state funds that are used to fund the general operating budget of the Forestry and Conservation Experiment Station:
"Interest revenue of \$4,858 in each year of the 2005 biennium is appropriated to the forestry and conservation experiment station for current unrestricted operating expenses. This amount is in addition to that shown in item (Forestry and Conservation Experiment Station)."

Sub-Program Details

BUREAU TRANSFERS - SP 12

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transfers	2,170,646	46,448	2,371	2,219,465	43,648	5,171	2,219,465	4,438,930
Total Costs	\$2,170,646	\$46,448	\$2,371	\$2,219,465	\$43,648	\$5,171	\$2,219,465	\$4,438,930
General Fund	1,570,646	(19,552)	2,371	1,553,465	(22,352)	5,171	1,553,465	3,106,930
State/Other Special	600,000	66,000	0	666,000	66,000	0	666,000	1,332,000
Total Funds	\$2,170,646	\$46,448	\$2,371	\$2,219,465	\$43,648	\$5,171	\$2,219,465	\$4,438,930

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
DP 903 - Adjust Groundwater Account	0.00	0	66,000	0	66,000	0.00	0	66,000	0	66,000
DP 7803 - Statewide Adjustments - BoM	0.00	(19,552)	0	0	(19,552)	0.00	(22,352)	0	0	(22,352)
Total Other Present Law Adjustments	0.00	(\$19,552)	\$66,000	\$0	\$46,448	0.00	(\$22,352)	\$66,000	\$0	\$43,648
Grand Total All Present Law Adjustments					\$46,448					\$43,648

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 903 - Adjust Groundwater Account - The Executive Budget proposed an increase in the groundwater assessment account of \$66,000 over the base year amount. This increase occurred in fiscal 2003 when the resource indemnity trust fund reached \$100 million.

DP 7803 - Statewide Adjustments - BoM - The Executive Budget proposed statewide adjustments include the state share of present law adjustments of \$75,171 in fiscal 2004 and \$72,371 in fiscal 2005, offset by continuing the special session reductions of \$94,723. Reductions included \$41,111 to personal services; \$15,117 in contracted services; \$3,410 in supplies; \$16,871 in travel; \$5,080 in other operating expenses and \$13,134 in equipment. The bureau has indicated that they will continue their fiscal 2003 special session reductions.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7903 - Achieving the Governor's Target - BoM										
12	0.00	2,371	0	0	2,371	0.00	5,171	0	0	5,171
Total	0.00	\$2,371	\$0	\$0	\$2,371	0.00	\$5,171	\$0	\$0	\$5,171

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7903 - Achieving the Governor's Target - BoM - The executive proposes the general fund appropriation for the Bureau of Mines be based on the average of the fiscal 2002 and fiscal 2003 appropriation after the special session. To achieve this proposed funding level, the executive increases state funding by an additional \$2,371 and \$5,171 in fiscal 2004 and fiscal 2005, respectively.

LFD
COMMENT

See comment on DP 7900 in the Educational Units section and Figure 8 on page E-129 for more information on the Executive Budget reductions.

Language Recommendations

Other Revenue

The executive proposes the following language that identifies the source and estimated amount of non-state funds that are used to fund the general operating budget of the Bureau of Mines and Geology:
"Proprietary revenue of \$29,157 each year of the 2005 biennium is appropriated to the bureau of mines and geology for current unrestricted operating expenses. This amount is in addition to that shown in item (Bureau of Mines and Geology)."

Sub-Program Details

FSTS TRANSFERS - SP 19

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transfers	507,637	31,621	(33,849)	505,409	30,975	(33,203)	505,409	1,010,818
Total Costs	\$507,637	\$31,621	(\$33,849)	\$505,409	\$30,975	(\$33,203)	\$505,409	\$1,010,818
General Fund	507,637	31,621	(33,849)	505,409	30,975	(33,203)	505,409	1,010,818
Total Funds	\$507,637	\$31,621	(\$33,849)	\$505,409	\$30,975	(\$33,203)	\$505,409	\$1,010,818

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 99 - NPQB Accreditation Fee	0.00	2,000	0	0	2,000	0.00	2,000	0	0	2,000
DP 907 - Recharge & Admin. Assessment	0.00	6,337	0	0	6,337	0.00	6,909	0	0	6,909
DP 7805 - Statewide Adjustments - FSTS	0.00	23,284	0	0	23,284	0.00	22,066	0	0	22,066
Total Other Present Law Adjustments										
	0.00	\$31,621	\$0	\$0	\$31,621	0.00	\$30,975	\$0	\$0	\$30,975
Grand Total All Present Law Adjustments					\$31,621					\$30,975

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 99 - NPQB Accreditation Fee - The executive proposes a \$2,000 per year general fund increase for the Fire Services Training School to pay a fee to the National Board on Fire Service Professional Qualifications. This fee is required to maintain accreditation.

DP 907 - Recharge & Admin. Assessment - The executive proposes adjustments to the state share of recharges on the MSU campus and to the administrative assessment at UM-Missoula.

LFD
COMMENT

See DP 907 - Recharge & Administrative Assessment description and table in the Educational Units subprogram narrative for additional information.

DP 7805 - Statewide Adjustments - FSTS - The Executive Budget proposes statewide adjustments include the state share of present law adjustments \$52,413 in fiscal 2004 and \$51,195 in fiscal 2005, offset by \$29,129 of special session reductions. A vehicle replacement was deferred in fiscal 2003.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7905 - Achieving the Governor's Target - FSTS										
19	0.00	(33,849)	0	0	(33,849)	0.00	(33,203)	0	0	(33,203)
Total	0.00	(\$33,849)	\$0	\$0	(\$33,849)	0.00	(\$33,203)	\$0	\$0	(\$33,203)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7905 - Achieving the Governor's Target - FSTS - The executive proposes the general fund appropriation for the Fire Services Training School be based on the average of the fiscal 2002 and fiscal 2003 appropriation after the special session. To achieve this proposed funding level, the executive reduces state funding by an additional \$33,849 and \$33,203 in fiscal 2004 and fiscal 2005 respectively. The agency is considering a plan to partially fund a trainer position and reduce equipment purchases by approximately 50 percent to realize the budget reductions.

LFD
COMMENT

See comment on DP 7900 in the Educational Units section and Figure 8 on page E-129 for more information on the Executive Budget reductions.

Language Recommendations

Other Revenue

The executive proposes the following language that identifies the source and estimated amount of non-state funds that are used to fund the general operating budget of the Fire Services Training School:
"Interest revenue of \$1,545 each year of the 2005 biennium is appropriated to the fire services training school for current unrestricted operating expenses. This amount is in addition to that shown in item (Fire Services Training School)."

Sub-Program Details

MISCELLANEOUS SYSTEM TRANSFERS -SP 24

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	0	0	0	0	0	0	0	0
Transfers	790,924	15,645	98,250	904,819	15,645	98,250	904,819	1,809,638
Total Costs	\$790,924	\$15,645	\$98,250	\$904,819	\$15,645	\$98,250	\$904,819	\$1,809,638
General Fund	641,200	(34,631)	98,250	704,819	(34,631)	98,250	704,819	1,409,638
State/Other Special	149,724	50,276	0	200,000	50,276	0	200,000	400,000
Total Funds	\$790,924	\$15,645	\$98,250	\$904,819	\$15,645	\$98,250	\$904,819	\$1,809,638

Sub-Program Description

The budgets contained in this sub-program include the distance learning program, family practice residency administered out of MSU-Bozeman, the UM-Yellow Bay appropriation, the motorcycle safety program at MSU-Northern, and the AES Biobased Institute. These programs are budgeted separately as they have been funded separately by the legislature, but still included in the lump sum appropriation. However, as the AES Biobased Institute "belongs" to the AES and is not in the lump-sum appropriation, it should be budgeted with the AES.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
DP 92 - Motorcycle Safety Training	Adjust to Rev. Est.									
0.00	0	50,276	0	50,276		0.00	0	50,276	0	50,276
DP 7800 - Statewide Adjustments - Educational Units										
0.00	(34,631)	0	0	(34,631)		0.00	(34,631)	0	0	(34,631)
Total Other Present Law Adjustments										
0.00	(\$34,631)	\$50,276	\$0	\$15,645		0.00	(\$34,631)	\$50,276	\$0	\$15,645
Grand Total All Present Law Adjustments				\$15,645						\$15,645

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 92 - Motorcycle Safety Training Adjust to Rev. Est. - The executive adjusts the motorcycle safety training appropriation to equal the projected \$400,000 of revenue over the 2005 biennium. The fund received \$204,129 in fiscal 2002.

DP 7800 - Statewide Adjustments - Educational Units - The executive proposes special session reductions applied to the family practice residency and distance learning appropriations be continued into the 2005 biennium.

LFD COMMENT

The impact of the special session reductions on the noted programs was not identified in the Executive Budget.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 920 - Yellow Bay 24	0.00	98,250	0	0	98,250	0.00	98,250	0	0	98,250
Total	0.00	\$98,250	\$0	\$0	\$98,250	0.00	\$98,250	\$0	\$0	\$98,250

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 920 - Yellow Bay - The executive proposes continuing the Yellow Bay line-item appropriation at the average of fiscal 2002 and fiscal 2003 appropriated after the special session. The Yellow Bay appropriation was a one-time-only appropriation last biennium.

Language Recommendations

Appropriation Condition for Biobased Institute

The executive proposes continuing the following language that requires the AES collect \$140,000 of private, nonpublic money each year of the biennium for purposes of supporting the institute prior to expending any of the general fund appropriation.

"The general fund money in (Institute for Biobased Products and Food Science) is appropriated with the condition that, prior to the expenditure of the general fund money, the Montana agricultural experiment station collect \$140,000 of private, nonpublic money each year of the 2005 biennium for the purpose of supporting the institute for biobased products and food science."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants	96,500	0	0	96,500	(96,500)	0	0	96,500
Total Costs	\$96,500	\$0	\$0	\$96,500	(\$96,500)	\$0	\$0	\$96,500
General Fund	96,500	0	0	96,500	(96,500)	0	0	96,500
Total Funds	\$96,500	\$0	\$0	\$96,500	(\$96,500)	\$0	\$0	\$96,500

Program Description

The program provides assistance to tribal colleges in Montana.

Program Narrative

Tribal College Assistance Major Budget Highlights	
○	The Executive Budget includes the same level of funding for the 2005 biennium as funded by the August 2002 special legislative session for the 2003 biennium.
○	

State law requires the Board of Regents to provide financial assistance to tribally controlled community colleges for enrolled resident non-beneficiary students, subject to a line item appropriation for this purpose. Appropriations for this program have been variable, ranging from \$1.4 million in the 1997 biennium to no funding in the 1999 biennium.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Tribal College Assistance Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 96,500	100.0%	\$ 96,500	100.0%	\$ -	0%
Grand Total	\$ 96,500	100.0%	\$ 96,500	100.0%	\$ -	0%

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
DP 1112 - Tribal College Assistance Adjustment										
0.00	0	0	0	0		0.00	(96,500)	0	0	(96,500)
Total Other Present Law Adjustments										
0.00	\$0	\$0	\$0	\$0		0.00	(\$96,500)	\$0	\$0	(\$96,500)
Grand Total All Present Law Adjustments										
				\$0						(\$96,500)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1112 - Tribal College Assistance Adjustment - The appropriation was a biennial appropriation and was established in the base year. This technical adjustment is necessary to remove the duplicate appropriation that was established in MBARS.

LFD COMMENT

The 2001 legislature appropriated \$100,000 general fund for the 2003 biennium for this assistance to tribal colleges. Special session global reductions totaled \$3,500. The remaining \$96,500 was distributed to tribal colleges in fiscal 2002 on the basis of fiscal 2001 non-beneficiary enrollment of 289.03 full-time equivalent students. This equates to approximately \$334 per non-beneficiary student. In fiscal 2000, \$417,000 was distributed to tribal colleges on the basis of fiscal 1999 non-beneficiary enrollment of 286.29 full-time equivalent students, or approximately \$1,457 per non-beneficiary student.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	46.20	0.00	3.00	49.20	0.00	3.00	49.20	49.20
Personal Services	1,614,391	48,898	102,347	1,765,636	49,163	102,217	1,765,771	3,531,407
Operating Expenses	4,135,610	1,076	0	4,136,686	2,411	0	4,138,021	8,274,707
Equipment	9,895	0	0	9,895	0	0	9,895	19,790
Benefits & Claims	23,340,271	3,000,000	0	26,340,271	6,000,000	0	29,340,271	55,680,542
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$29,100,167	\$3,049,974	\$102,347	\$32,252,488	\$6,051,574	\$102,217	\$35,253,958	\$67,506,446
Federal Special	29,100,167	3,049,974	102,347	32,252,488	6,051,574	102,217	35,253,958	67,506,446
Total Funds	\$29,100,167	\$3,049,974	\$102,347	\$32,252,488	\$6,051,574	\$102,217	\$35,253,958	\$67,506,446

Program Description

The Montana Guaranteed Student Loan Program (MGSLP) operates under federal regulation to guarantee federal student loans. MGSLP purchases and services student loans that have been defaulted, works to prevent default, collects outstanding principal from defaulted loans and provides training and technical assistance to schools and lenders under Title 20, Chapter 26, MCA.

Program Narrative

Guaranteed Student Loan Program Major Budget Highlights

- Montana State University rejoins the Federal Family Education Loan Program
- 3.0 additional FTE to further program goals funded with federal and private revenues

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor. Funding is from a combination of federal and private revenues from the loan services provided.

Program Funding Table Guaranteed Student Loan Pgm						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
03400 Guaranteed Std. Loan-Admin.	\$ 8,633,671	29.7%	\$ 8,785,992	27.2%	\$ 8,787,462	24.9%
03401 Gsl - Reserve Account	20,466,496	70.3%	23,466,496	72.8%	26,466,496	75.1%
Grand Total	\$ 29,100,167	100.0%	\$ 32,252,488	100.0%	\$ 35,253,958	100.0%

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				118,199						118,479
Vacancy Savings				(69,301)						(69,316)
Inflation/Deflation				6,588						7,116
Fixed Costs				(5,512)						(4,705)
Total Statewide Present Law Adjustments				\$49,974						\$51,574
DP 14 - Increase Claims Payment & Collection Recoveries										
0.00	0	0	3,000,000	3,000,000		0.00	0	0	6,000,000	6,000,000
Total Other Present Law Adjustments				\$3,000,000		0.00	\$0	\$0	\$6,000,000	\$6,000,000
Grand Total All Present Law Adjustments				\$3,049,974						\$6,051,574

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 14 - Increase Claims Payment & Collection Recoveries - During fiscal 2003, the Montana Guaranteed Student Loan Program (MGSLP) anticipates the reintroduction of Montana State University Bozeman (MSU) to the Federal Family Education Loan Program (FFELP). MSU left FFELP in 1994 to participate in the (then) new Federal Direct Loan Program for their federal student loan volume. With the addition of MSU's loan volume, MGSLP anticipates an increase in gross claim payments for which the agency must have appropriate authority to pay. (MGSLP is later reimbursed for these claim payments by the U.S. Department of Education.) With the addition of increased claim payments, MGSLP also anticipates increased collections on the associated defaulted loans. MGSLP must have appropriate authority to pay the Department of Education's share of the default collection recoveries.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 15 - GSL Additional FTE										
12	3.00	0	0	102,347	102,347	3.00	0	0	102,217	102,217
Total	3.00	\$0	\$0	\$102,347	\$102,347	3.00	\$0	\$0	\$102,217	\$102,217

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 15 - GSL Additional FTE - The Executive Budget proposes the addition of 3.00 FTE to provide additional outreach services, support the loan disbursement escrow service to Montana schools and lenders, and improve agency accountability through reconciliation with the National Student Loan Data System and expanded production of statistical and accounting reports. MGSLP proposes a 1.00 FTE outreach coordinator, a 1.00 FTE accounting technician, and a 1.00 FTE research analyst.

There is no state funding in the MGSLP and these positions will be paid from revenue on the services provided.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Personal Services	14,400	(1,963)	0	12,437	(1,963)	0	12,437	24,874
Operating Expenses	39,452	0	0	39,452	0	0	39,452	78,904
Total Costs	\$53,852	(\$1,963)	\$0	\$51,889	(\$1,963)	\$0	\$51,889	\$103,778
General Fund	53,852	(1,963)	0	51,889	(1,963)	0	51,889	103,778
Total Funds	\$53,852	(\$1,963)	\$0	\$51,889	(\$1,963)	\$0	\$51,889	\$103,778

Program Description

The Board of Regents program provides secretarial support, travel, and per diem for the Board of Regents. The Board of Regents has full power, responsibility, and authority to supervise, coordinate, manage, and control the Montana University System under Article X, Section 9, Montana Constitution, and 20-25-301, MCA.

Program Narrative

Board of Regents Major Budget Highlights	
o	The Executive Budget includes funds for the same number of meetings in the fiscal 2005 biennium as was experienced in fiscal 2002
o	The special session reduction that is continued into the 2005 biennium impacts the honorarium paid to the regents

For fiscal 2003, the Board of Regents adopted a motion for board members to voluntarily give up per diem reimbursements to absorb the reductions in state funds.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Board Of Regents-Admin						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 53,852	100.0%	\$ 51,889	100.0%	\$ 51,889	100.0%
Grand Total	\$ 53,852	100.0%	\$ 51,889	100.0%	\$ 51,889	100.0%

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					(14,400)					(14,400)
Total Statewide Present Law Adjustments					(\$14,400)					(\$14,400)
DP 131 - Restore Base	0.00	14,400	0	0	14,400	0.00	14,400	0	0	14,400
DP 7010 - Global Special Session Reduction	0.00	(1,963)	0	0	(1,963)	0.00	(1,963)	0	0	(1,963)
Total Other Present Law Adjustments	0.00	\$12,437	\$0	\$0	\$12,437	0.00	\$12,437	\$0	\$0	\$12,437
Grand Total All Present Law Adjustments					(\$1,963)					(\$1,963)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 131 - Restore Base - Board per diem is zero based so this adjustment restores authority for fiscal 2004 and fiscal 2005 to the level of actual expenditures for fiscal 2002.

DP 7010 - Global Special Session Reduction - The special session reduction that was applied to the Board of Regents is continued into the 2005 biennium.



LONG-RANGE PLANNING

Section F

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE COMMITTEES

-----Agencies-----

Long-Range Building Program
Treasure State Endowment Program
State Building Energy Conservation

Resource Indemnity Trust Grant & Loan Programs
Cultural and Aesthetic Grant Program
Libby Bond Program

-----Committee Members-----

House

Representative Dave Kasten (Chair)
Representative Christine Kaufmann
Representative John Witt

Senate

Senator Tom Zook (Vice-Chair)
Senator John Tester
Senator Bob Keenan
Senator Joe Tropila

-----Fiscal Division Staff-----

Catherine Duncan

LONG RANGE BUILDING PROGRAM

Program Description

In 1963, the legislature enacted the Long-Range Building Program (LRBP) to provide funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. The program was developed in order to present a single, comprehensive, and prioritized plan for allocating state resources for the purpose of capital construction and repair of state-owned facilities. Historically, the LRBP has been funded with a combination of cash accounts and bonding. The various types of cash accounts include state and federal special revenue funds, other funds (such as university and private funds), and the capital projects fund (long-range building program account).

Figure 1 summarizes capital project appropriations for each biennium since 1985.

Figure 1
Capital Projects Appropriated by Biennium
1985 Biennium to 2005 Biennium (in millions)

Biennium	Capital Projects Fund	General Fund	Other Funds	(3)	Total Cash Projects	G.O. Bonds	Total Cash & Bonded Projects
1985	\$10.870	\$0.000	\$15.693		\$26.563	\$39.335	\$65.898
1987	10.518	-	19.202		29.720	8.550	38.270
1989	6.247	-	11.440		17.687	-	17.687
1991	7.515	-	21.556		29.071	3.823	32.894
1993	8.382	1.768	70.052		80.202	48.561 (1)	128.763
1995	3.119	2.600 (2)	30.898		36.617	6.460	43.077
1997	(4) 7.835	-	145.191		153.026	41.865	194.891
1999	9.160	-	69.164		78.324	43.319	121.643
2001	7.515	0.170	107.936		115.621	33.404	149.025
2003	5.490	-	75.325		80.815	25.025	105.840
2005	(5) 2.282	-	43.853		46.134	-	46.134

(1) The 1993 legislature reduced the prison expansion by \$12.7 million.
 (2) HB46 diverted cigarette tax revenues from the capital projects fund to a state special revenue fund for the operation of veterans' homes.
 (3) Other funds include non-general fund sources, such as state and federal special revenue funds, private contributions, and miscellaneous "other" funds.
 (4) Excludes the \$3.5 million general fund appropriation to OPI for state advances and reimbursements for school facilities (HB5). This was not part of the long range building program.
 (5) Amounts provided for the 2005 biennium are based upon the Executive request.

Executive Recommendation

The executive request for the Long-Range Building Program totals \$46.1 million for the 2005 biennium. If approved as requested, LRBP appropriations for the next biennium would represent the smallest program in the past decade. Furthermore, this signifies a reduction of over 56.0 percent from the 2003 biennium. In the 2005 biennium, there will be no projects funded with bonds; all projects will be requested in HB 5, the cash program. The last biennium that the state was without a bonded program was in 1989. The funding of the various cash projects is as follows:

- o \$2.3 million capital projects funding
- o \$24.5 million state special revenue
- o \$11.3 million federal special revenue
- o \$8.0 million "other" funds

Figure 2 shows the projects recommended by the executive, listed by agency. These projects will be requested in HB 5 (cash projects). The projects are numbered to indicate priority.

Funding

Funding for the Long-Range Building Program comes from various sources: the long-range building program account, state special revenue funds, federal funds, and other funds (such as university funds, private funds, and capitol land grant funds).

Figure 2
Long-Range Building Program
Executive Recommendation - Cash Projects
2005 Biennium

Priority	Recommendations for HB 5 "Cash" Projects					
Rank	Project	LRBP	State Special	Fed Special	Other Funds	Total
Department of Administration						
1	Roof Repairs/Replacements Statewide	\$956,000				\$956,000
3	Code/Deferred Maint. & Disability Access Statewide	550,000				550,000
5	Capitol Renovation Arbitration	305,000				305,000
6	State Public Health Laboratory, Phase 2			1,474,000		1,474,000
7	Repair Front Stairs at State Capitol			130,000	400,000	530,000
8	Land Acquisition--Capitol Complex				600,000	600,000
Department of Corrections						
9	Dairy Expansion--Montana Correctional Enterprises				725,000	725,000
Department of Fish, Wildlife, and Parks						
17	Future Fisheries Program		910,000			910,000
18	Fishing Access Site Maintenance		275,000			275,000
19	Fishing Access Site Protection		600,000			600,000
20	Fishing Access Site Acquisition		550,000	200,000		750,000
21	Hatchery Maintenance		575,000	575,000		1,150,000
22	Community Fishing Ponds		-	50,000		50,000
23	FWP Dams Repair		500,000			500,000
24	Habitat Montana		6,900,000			6,900,000
25	Upland Game Bird Program		2,300,000			2,300,000
26	Wildlife Habitat Maintenance		800,000			800,000
27	Migratory Bird Stamp Program		225,000			225,000
28	Bighorn Sheep Enhancements		75,000			75,000
29	Motorboat Recreation Site Improvements		1,250,000			1,250,000
30	Cultural & Historical Park Improvements		800,000			800,000
31	Federal Land & Water Conservation Fund Grants			2,900,000		2,900,000
32	Federal Trails Grants			1,900,000		1,900,000
33	Federal Off Highway Vehicle Trails Grants		375,000			375,000
34	Federal Wallop/Breaux Projects			1,500,000		1,500,000
35	Administrative Facilities Repair & Maintenance		800,000			800,000
36	MT Wildlife Rehabilitation and Nature Cntr Complex		100,000	500,000	2,600,000	3,200,000
Department of Military Affairs						
15	Federal Spending Authority			2,000,000		2,000,000
16	Re-roof Armories Statewide			90,212		90,212
Department of Public Health and Human Services						
11	Demolish Dormitory at MT Veteran's Home		231,600			231,600
12	Renovate Historic "Old Main" Bldg at MT Vet's Home		2,252,000			2,252,000
Department of Transportation						
13	New Equipment Storage Facilities, Statewide		3,000,000			3,000,000
14	Facility Maint., Repair and Small Projects, Statewide		2,000,000			2,000,000
Montana University System-Statewide						
4	Repair/Replace Deteriorated Campus Infrastructure	300,000				300,000
University of Montana						
2	Replace Electrical Primary Radial System, UM--Butte	170,500			190,000	360,500
10	General Spending Authority--All UM Campuses	-	-	-	3,500,000	3,500,000
Total Cash Programs:		\$2,281,500	\$24,518,600	\$11,319,212	\$8,015,000	\$46,134,312

Although the LRBP account does not represent the largest portion of funding for capital projects, the revenues allocated to this account represent the only specific commitment of state funds for capital projects. LRBP account revenues include 15.85 percent of cigarette tax revenue. Present law provides 12.0 percent of coal severance tax revenue, but the executive proposes to reduce the allocation to 10.0 percent through the 2005 biennium (see Vol. 1, Statewide Perspectives, Executive Revenue and Tax Policy Proposals). Other income includes LRBP interest earnings, and supervisory fees paid to the Architecture and Engineering Division (A&E) of the Department of Administration.

The LRBP account also receives some funds from the State Building Energy Conservation Program. Through this program, the state issues general obligation (G.O.) bonds, uses the bond proceeds to pay for energy efficiency improvements, then uses the resulting energy cost savings to pay the debt service on the bonds.

The projects are designed so that the cost savings exceed the bond debt service payments. Excess savings are transferred to the long-range building program.

Figure 3 shows the projected fund balance for the LRBP account for the 2005 biennium. As shown in Figure 2, approximately \$2.3 million is requested for cash projects in HB 5, leaving an estimated fund balance of a negative \$142,901 at the end of the 2005 biennium. The fund balance estimate includes the proposed reduction in coal severance tax distributions. This estimated ending fund balance, prepared by the LFD, is slightly lower than that shown in the Executive Budget (see note in figure 3), primarily because of two factors: 1) the LFD estimates a lower ending fund balance for fiscal 2003 than the executive; and 2) the net revenue estimated for the 2005 biennium is lower. The difference is approximately 1.5 percent of the total funds available for the 2005 biennium.

Figure 3 Long-Range Building Program Account Fund Balance Projection 2005 Biennium	
Estimated Beginning Cash Balance (July 1, 2003)	(\$1,048,999)
Revenues,* 2005 Biennium:	
Cigarette Tax	\$3,349,000
Coal Severance Tax	5,928,000 **
Interest Earnings	251,100
Supervisory Fees	202,192
DEQ Transfer-Energy Savings	404,295
Total Revenues	10,134,587
Funds Available	9,085,588
Expenditures:	
Operating Costs-A & E Division	(2,471,259)
Debt Service-1996D	(3,541,831)
Debt Service-1997B	(882,967)
Debt Service-1999C	(1,380,932)
Debt Service Funding Switch, 2001 legislative session	1,330,000
Total Expenditures-Excluding Capital Projects	(6,946,989)
Funds Available for Capital Projects	2,138,599
Funding Proposals:	
Capital Construction Program-LRBP Projects Only	(2,281,500)
Estimated Ending Fund Balance	(\$142,901)
Note: The executive 2004 beginning fund balance is (\$1,022,054), and the fiscal 2005 ending fund balance is \$3,706.	
*Revenue estimates based on HJR 2 recommendations	
**Includes executive recommendation for reduction from 12% to 10% of coal severance tax	

LFD ISSUE

The 2005 biennium will be a difficult budget cycle for the legislature and state agencies. The LRBP, along with all programs, has undergone large budgetary reductions in an attempt to lessen the pressures from diminished revenues. Even with the reductions in appropriations, the LRBP shows a negative cash fund balance in the 2005 biennium.

Article VIII, section 9 of the Montana Constitution states that appropriations of the legislature shall not exceed revenues. If the executive's proposal is accepted, the LRBP will be in violation of Article VIII, section 9. Further reductions to the program will be needed to avoid non-compliance.

Negative cash ending fund balances are not new to the LRBP. The 2001 Legislature approved a LRBP budget with a negative ending fund balance of \$30,268, approximately 0.4 percent of total appropriations for the LRBP cash program. However, actions to pass such a budget run contrary to the Constitutional mandate as well as the overall legislative consensus that budgets are fixed with an ending fund balance of at least a 2.0 percent of the total appropriations.

The legislature has chosen to provide a cushion for the state budget as a whole. There are reasons that make such an action logical. First, all the projections for future spending and earnings are estimates. With that said, there is no way to know how much money will actually be flowing into the program, and similarly there is no way to know exactly how much money will actually be required for operations. Because budgets are necessarily based on estimates, it is reasonable to provide a cushion to guard against the potential problems associated with reduced revenues or increased expenses. The LRBP might consider several alternatives in managing this problem. 1) The committee could leave the balance negative; 2) make further reductions to the LRBP cash program to leave a zero or small ending fund balance; or 3) reduce the program even further to provide a cushion to guard against reduced cash flows into the program or increased expenditures. Should the LRBP choose the third option, program reductions and/or revenue enhancements of approximately \$327,000 would be required to leave a cushion of 2.0 percent of appropriations for the LRBP.

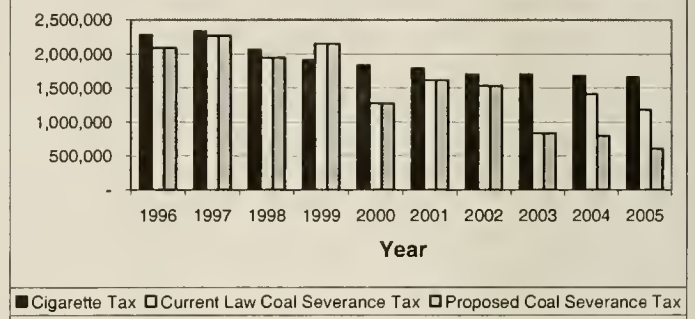
**LFD
ISSUE**

The LRBP is experiencing reduced revenues that could in the future become a significant problem. The LRBP cash program has been supported by distributions from cigarette tax for many years. Coal severance support was added to the LRBP to provide debt service payments on three bond issues and since has become of increasing importance to the support of the program. These two revenue sources provide the greatest part of the funding for the LRBP. Unfortunately, both the cigarette tax and the coal severance tax sources are experiencing diminished revenue collections, as seen in the chart below. The proposed reduction of coal tax distribution in the 2005 biennium only aggravates the problem. Consequently, priority projects, such as deferred maintenance, must be reduced in the 2005 biennium.

Deferred maintenance is the vehicle used to care for and maintain state buildings. Without a comprehensive deferred maintenance program, the state would likely incur increased expenses in state buildings. The cost of deferred maintenance increases both as an issue of time (maintenance costs increase as building grow older and inflation increases costs in time) and as buildings are added to the state's inventory.

Reduced revenues and increased expenses can only equate to problems for the LRBP in the future. The LRBC may wish to discuss this funding issue and attempt to determine what actions might be required to avoid potential problems in the future.

Cigarette and Coal Tax Support of LRBP "Cash Program"



TREASURE STATE ENDOWMENT PROGRAM

Program Description

The Treasure State Endowment Program (TSEP) is a state infrastructure-financing program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the program is derived from investment earnings on coal severance tax funds. TSEP loans are funded with proceeds from bonds backed by coal severance tax collections. According to 90-6-702, MCA, the purpose of TSEP is to assist local governments in funding infrastructure projects that will:

- Create jobs for Montana residents
- Promote economic growth in Montana by helping to finance the necessary infrastructure
- Encourage local public facility improvements
- Create a partnership between the state and local governments to make necessary public projects affordable
- Support long-term, stable economic growth in Montana
- Protect future generations from undue fiscal burdens caused by financing necessary public works
- Coordinate and improve infrastructure financing by federal, state, local government, and private sources
- Enhance the quality of life and protect the health, safety, and welfare of Montana citizens

Infrastructure projects include drinking water systems, wastewater treatment facilities, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges.

Eligible applicants include cities, towns, counties, and tribal governments, or county or multi-county water, sewer or solid waste districts. TSEP applications are submitted to the Department of Commerce (DOC) on a biennial basis where they are evaluated according to a two-step process and are ranked according to: 1) ten statutory priorities; and 2) relative financial need. The seven statutory priorities focus on projects that:

- Solve urgent and serious public health or safety problems or that enable local governments to meet state or federal health or safety standards
- Reflect greater need for financial assistance than other projects
- Incorporate appropriate, cost-effective technical design and that provide thorough, long-term solutions to community public facility needs
- Reflect substantial past efforts to ensure sound, effective, long-term planning and management of public facilities and that attempt to resolve the infrastructure problem with local resources
- Enable local governments to obtain funds from sources other than TSEP
- Provide long-term, full-time job opportunities for Montanans, provide public facilities necessary for the expansion of a business that has a high potential for financial success, or maintain the tax base or encourage expansion of the tax base
- Are high local priorities and have strong community support

The DOC administers TSEP and makes recommendations for grant and loan awards to the executive. The executive makes funding recommendations to the Montana legislature. The legislature makes the final decisions on the award of TSEP funds.

Grants have been the primary source of TSEP funding awarded since program inception. In fact, only eight loans were authorized by the legislature in the first three funding cycles and to date, none of the successful applicants have opted to secure a TSEP loan. There are several other federal and state sources available to communities for low-interest loans, but grant funds, which help make expensive local public facility projects more affordable and financially feasible, are extremely limited. Figure 4 shows the history of TSEP awards made for the 1995 through 2005 biennia.

Executive Recommendation

The executive recommendation contains several changes that will impact the TSEP in the future. Among the executive proposals is a diversion of \$8.4 million, using HJR 2 estimates, of the expected TSEP interest earnings to replace general fund K-12 school facility payments (the executive recommendation estimates the diversion to be \$8.5 million). This represents a reduction of half in both dollar and project terms, from the 2003 biennium. The executive further proposes to increase coal severance tax bond funding from 50.0 percent to 75.0 percent. Over time, this change will increase the corpus of the Treasure State Endowment Fund and generate additional interest to fund the ongoing K-12 school facility payments and future TSEP grants. Next, the executive proposes an addition of one FTE civil engineer for the department to assist with the technical issues related to the preliminary engineering studies and the emergency projects. Finally, the proposal suggests a continuation of the \$100,000 emergency grant allocation.

The Department of Commerce received 55 applications for TSEP grants totaling, \$21.9 million, and no applications for loan funds for the 2005 biennium. Considering the proposed changes, the executive recommendation for TSEP includes funding for 17 projects, with the City of Conrad project, the 17th priority, recommended to receive \$387,230 of the requested \$500,000. This amounts to a total of \$7.0 million. The recommendation list also includes 3 projects (\$1.1 million) that would be contingent upon the availability of funding. Figure 5 provides a list of the executive TSEP recommendations for the 2005 biennium, which will be introduced in HB 11. Projects are listed in priority order.

Figure 4

Treasure State Endowment Program
Grant and Loan Awards by Biennium
(in millions)

Biennium	Number of Projects Approved & Funded		Grant Awards	Loan Awards
	Grants	Loans		
1995	20	4	\$ 3.966	\$ 0.168
1997	15	0	4.991	-
1999	22	4	9.111	1.905
2001	21	0	12.596	-
2003	34	0	15.172	-
*2005	55	0	6.974	-

* The data for the 2005 biennium represents the executive request for TSEP funding, which is subject to approval by the 2003 legislature.

LFD ISSUE

The executive has made a series of proposals that significantly impact TSEP. First, the executive proposes to divert 50.0 percent of TSEP interest earnings during the 2005 biennium to relieve the general fund of \$8.4 million in K-12 school facility payments. Next, the executive proposes to continue funding the K-12 facility payments with TSEP interest earnings amounting to \$4.36 million on an ongoing annual basis. Finally, in order to boost the interest remaining for TSEP grants, the executive has increased the flow to the Treasure State Endowment Fund from the coal severance tax by 12.5 percent.

To support the additional interest requirement of \$4.36 million of K-12 facility payments, approximately \$57.0 million in added corpus would be required. To transfer that amount of coal severance tax to the Treasure State Endowment Fund, with the added appropriation of 12.5 percent of coal severance tax, will take approximately 14 years.

TSEP is slated to lose nearly 50.0 percent of their grant project funding in the 2005 biennium, and the addition of 12.5 percent of coal severance tax will not increase the corpus enough to fund the K-12 payments with additional interest for over 14 years. The executive proposal will terminate in 2013, only ten years. Consequently, the TSEP program will never have the funds necessary to fund projects at present law levels, and will not be held harmless in this set of proposals.

The committee should give consideration to the impacts of the executive proposals that effect TSEP. Other solutions may be available to help TSEP retain its project funding. One alternative that the committee might investigate is the ability to issue bonds, backed with the TSEP fund and paid with TSEP interest earnings, to pay the K-12 facility obligations. Lacking an alternative option for the executive recommendations, TSEP will never have the ability to fund projects as expected.

Figure 5
Treasure State Endowment Program
Grant Recommendations
2005 Biennium

Rank Order	Applicant	Requested Grant Award	Proposed Grant Award*	Cumulative Grant Award
1	Lewis & Clark County	\$170,575	\$170,575	\$170,575
2	Judith Basin County/Geyser District	330,000	330,000	500,575
3	Madison County	249,058	174,529	675,104
4	Town of Chinook	500,000	500,000	1,175,104
5	Sweet Grass County	235,954	235,954	1,411,058
6	Stillwater County	500,000	500,000	1,911,058
7	Power-Teton County District	500,000	500,000	2,411,058
8	Richland County	351,625	351,625	2,762,683
9	Town of Stanford	500,000	500,000	3,262,683
10	Town of Hamilton	500,000	500,000	3,762,683
11	Town of Troy	500,000	500,000	4,262,683
12	Town of Scobey	500,000	500,000	4,762,683
13	Missoula	500,000	500,000	5,262,683
14	Blain County	480,400	322,782	5,585,465
15	Upper-Lower River Road District	500,000	500,000	6,085,465
16	Town of Polson	500,000	500,000	6,585,465
17	Town of Conrad	500,000	500,000	7,085,465
18	Town of Glendive	139,133	139,133	7,224,598
19	Sheavers Creek District	500,000	500,000	7,724,598
20	Gallatin County	500,000	500,000	8,224,598
21	Gardiner/Park County District	500,000	500,000	8,724,598
22	Phillips Co Green Meadows District	112,500	112,500	8,837,098
23	Town of Geraldine	500,000	500,000	9,337,098
24	Missoula County	499,335	499,335	9,836,433
25	Ramsay County District	255,000	255,000	10,091,433
26	Cooke City-Park County District	500,000	500,000	10,591,433
27	Worden Ballentine District	500,000	500,000	11,091,433
28	Town of Wolf Point	500,000	500,000	11,591,433
29	Town of Ryegate	478,700	478,700	12,070,133
30	Cascade County	230,840	230,840	12,300,973
31	Town of Libby	500,000	500,000	12,800,973
32	Beaverhead County District (Wisdom)	500,000	500,000	13,300,973
33	Hill County	175,803	175,803	13,476,776
34	Town of Jordan	459,883	459,883	13,936,659
35	Pablo-Lake County District	500,000	500,000	14,436,659
36	Town of Ekalaka	212,697	154,197	14,590,856
37	Pondera County	137,500	137,500	14,728,356
38	Black Eagle District	214,200	214,200	14,942,556
39	Lake County Solid Waste District	500,000	500,000	15,442,556
40	Sheridan County	210,775	210,775	15,653,331
41	Town of Whitefish	500,000	500,000	16,153,331
42	Town of Belgrade	500,000	500,000	16,653,331
43	Yellowstone County	172,710	172,710	16,826,041
44	Town of St. Ignatius	500,000	500,000	17,326,041
45	Lockwood District	500,000	500,000	17,826,041
46	Town of Columbia Falls	220,000	220,000	18,046,041
47	Pleasant View Homesites District	210,140	210,140	18,256,181
48	Butte-Silver Bow	403,006	403,006	18,659,187
49	Town of Three Forks	327,000	327,000	18,986,187
50	Big Sky District	500,000	500,000	19,486,187
51	Helena	500,000	500,000	19,986,187
52	Homestead Acres District	147,815	147,815	20,134,002
53	Town of Columbus	500,000	500,000	20,634,002
54	Town of Miles City	500,000	500,000	21,134,002
55	Meadowlark District	477,500	-	21,134,002
Total Proposed Grant Awards:		\$21,902,149	\$21,134,002	

* These applicants are recommended for grant awards contingent upon availability of TSEP funds.

Funding

In July 1993, \$10.0 million was transferred from the coal severance tax permanent trust fund to the Treasure State Endowment Trust Fund (TSEF). In addition, the trust receives 37.5 percent (75.0 percent of 50.0 percent) of the coal severance tax revenues deposited into the permanent trust through fiscal 2003, at which time funding is reduced to 25.0 percent (50.0 percent of 50.0 percent). Funding for TSEP grants comes from the investment earnings on the Treasure State Endowment Trust, which are deposited into a TSEP state special revenue account. TSEF investment earnings for the 2005 biennium are projected to total \$16.3 million before the impact of the executive proposals.

From the 1999 session, the TSEP grants were also slated to receive \$4.6 million in funding in the 2001 biennium and \$1.2 million in subsequent biennia from an allocation of the coal producer license tax enacted in HB 260 (1999). This funding mechanism disappeared when HB 260 was declared unconstitutional. In the special session that followed (May 2000), the legislature replaced some of that funding with a \$3.0 general fund appropriation for the 2001 biennium.

In order to provide "start-up" funds for TSEP, the 1993 legislature authorized the DOC to borrow money from the Board of Investments (BOI), resulting in a \$4.1 million loan, which was completely repaid by fiscal year end 2001.

Figure 6 shows the projected fund balance for the treasure state endowment state special revenue account for the 2005 biennium under present law assumptions.

Total new revenue and carryover funds in this account are estimated at \$16.3 million for the biennium. Expenditures amount to \$1.4 million and include \$0.9 million in administrative costs, \$100,000 for the emergency grants program, and a \$0.4 million statutory appropriation for pre-engineering. Under present law, \$14.9 million is available for TSEP grants, enough to fund the first 38 projects seen in Figure 2.

Figure 6
Treasure State Endowment Program
Fund Balance Projection-Present Law
2005 Biennium

Estimated Beginning Fund Balance ¹	\$0	
Revenue Projections ²		
2004 Interest	7,871,000	
2005 Interest	<u>8,472,000</u>	
2005 Biennium Funds Available		16,343,000
Proposed Expenditures		
Administration - Commerce ³	812,305	
Administration - DNRC	54,000	
Emergency Grants ⁴	100,000	
Water/Sewer Pre-engineering - SA	<u>425,000</u>	
Total Expenditures		<u>1,391,305</u>
Funds Available for Grants		<u>\$14,951,695</u>
Proposed Grants		<u>\$21,902,149</u>

¹Beginning balance of \$0 is used because the programs are expected to spend all grants from previous years.

²Based on HJR 2 revenue estimate

³Includes 1 additional FTE Civil Engineer per the Executive Budget.

⁴Based on amount to be requested during the 2005 biennium

Figure 7 shows the projected fund balance for the treasure state endowment state special revenue account for the 2005 biennium under the provisions of the Executive Budget. The recommended law changes would reduce available funds for the 2005 biennium by \$8.0 million, to \$7.0 million, and the number of projects by 21. The list of projects recommended would include the first 16 projects in entirety and the 17 project, the City of Conrad, with a reduced award of \$387,230.

Figure 7 Treasure State Endowment Program Fund Balance Projection-Executive Recommendation 2005 Biennium		
Estimated Beginning Fund Balance ¹	\$0	
Revenue Projections		
2005 Biennium Interest ²	16,343,000	
Executive Recommendation ³	<u>480,000</u>	
Total Interest Available		16,823,000
Proposed Fund Diversion ⁴	<u>8,411,500</u>	
Total Funds Available		8,411,500
Proposed Expenditures		
Administration - Commerce ⁵	812,305	
Administration - DNRC	54,000	
Emergency Grants ⁶	100,000	
Water/Sewer Pre-engineering - SA	<u>425,000</u>	
Total Expenditures		<u>1,391,305</u>
Funds Available for Grants		<u>\$7,020,195</u>
Proposed Grants		<u>\$21,902,149</u>

¹Beginning balance of \$0 is used because the programs are expected to spend all grants from previous years.
²Based on HJR 2 Assumptions
³Based on change of coal severance distribution to TSEP, from 50 percent to 75 percent.
⁴Based on Executive recommendation to divert funds to replace general fund K-12 school facility payments.
⁵Includes 1 additional FTE Civil Engineer per the Executive Budget.
⁶Based on amount to be requested during the 2005 biennium.

LFD ISSUE

The LFD estimates the changes in TSEP interest earnings by applying proposed law changes to HJR 2 estimates. The executive did not use the HJR 2 assumptions when determining the amount of interest that would be available to the program.

LFD ISSUE

Funding for DNRC - Loans granted under the TSEP are issued by the Department of Natural Resources and Conservation (DNRC) in conjunction with loans issued for the Renewable Resource Grant and Loan Program. Consequently, since the inception of the TSEP, DNRC has been appropriated TSEP interest earnings to cover costs associated with loan issuance and administration. As shown in the fund balance projection table (Figure 7), \$54,000 has been budgeted for DNRC administrative expenditures for the 2005 biennium. For the 1995 through 2003 biennia, DNRC received HB 2 appropriations totaling over \$287,000 in TSEP funds.

As mentioned above, however, only eight loans have been granted since program inception and no requests for TSEP loans were received for the 2005 biennium. Moreover, as previously stated, none of the eight entities receiving loans have opted to secure them. Thus, the executive provides no justification for appropriating TSEP funds to DNRC when the department has not actually been required to issue bonds for TSEP loan awards. If the 2003 legislature appropriates the \$54,000 requested by DNRC for this purpose, the result will be a total of \$341,000 in TSEP funds being granted to cover administrative costs rather than being made available to local governments. Therefore, the 2001 legislature may want to seek justification from the executive prior to appropriating \$50,000 in TSEP funds to DNRC when no loan requests have been realized.

STATE BUILDING ENERGY CONSERVATION

Program Description

The State Building Energy Conservation Program (SBECF), administered by the Department of Environmental Quality (DEQ), was established by the 1989 legislature to reduce operating costs of state facilities by identifying and funding cost-effective energy efficiency improvement projects. Energy efficiency improvements include:

- Replacing old, inefficient boilers
- Upgrading inefficient lighting
- Increasing ventilation system efficiency
- Insulating buildings
- Providing more effective temperature controls

Through this program, the state issues general obligation (GO) bonds, uses the bond proceeds to pay for energy efficiency improvements, then uses the resulting energy cost savings to pay the debt service on the bonds. The projects are designed so that the cost savings exceed the bond debt service payments. Excess savings are transferred to the Long-Range Building Program. To date, 52 energy conservation projects have been completed through the SBECF, and an additional 12 projects are in various stages of completion. Since program inception, the state has spent a total of \$4.4 million in oil overcharge funds and \$6.5 million in GO bond proceeds to fund the projects.

Since the program was started in fiscal 1994 through fiscal 2002, the SBECF has captured energy savings of \$6.2 million. Agencies that have completed or substantially completed projects have incorporated savings into their budgets of \$1.9 million. All savings that remain after the DEQ pays interest and principle on the related bond issues are "swept" into the LRBP to fund additional projects. \$954,233 has been swept into LRBP to date, and the estimated sweep for the next biennium is \$404,295.

Executive Recommendation

The executive proposal for the SBECF for the 2005 biennium calls for the 2003 legislature to authorize the state Board of Examiners to issue up to \$2.5 million in GO bonds for the purpose of funding energy conservation projects. Following is a list of projects identified by the executive for the SBECF for fiscal years 2004 and 2005.

Projects in Design or Construction

Dept of Public Health and Human Services

- MT Mental Health Nursing Care Center, Lewistown
- Energy efficiency upgrades are being included in the design of a new cooling system for the facility. An energy study is being completed on the heating plant to identify energy improvements.

Projects in Development

Department of Administration

Mitchell Building, Helena

Cooling system upgrade for energy and water savings. Other efficiency measures will be identified through additional studies.

Dept of Public Health and Human Services

Spratt Building, Warm Springs

Upgrade lighting system and temperature control system in building. Other efficiency upgrades will be identified through additional studies.

Department of Corrections

Montana State Prison, Deer Lodge

Campus-wide energy study is near completion to determine a comprehensive list of eligible energy saving projects.

Department of Fish, Wildlife and Parks

FWP Headquarters, Kalispell

FWP Headquarters, Missoula

Lighting system upgrades with rebates from the Northwestern Utility USBC Program.

University Montana

Health Sciences Building, Missoula

Cooling system upgrade with ground water cooling replacing mechanical cooling.

Preliminary LRBP Projects

All of the proposed HB 12 projects have been coordinated with the LRBP selection process.

Funding

The authority for the issuance of GO bonds to finance the projects listed above will be requested in HB 12. Up to \$2.5 million in bond proceeds from the sale of general obligation bonds are to be used to fund the energy efficiency improvements, \$500,000 less than approved in the 2003 biennium. The savings in energy costs that result from the projects are used to make the bond payments and fund future projects.

RESOURCE INDEMNITY TRUST GRANT AND LOAN PROGRAM

Program Description

Resource indemnity trust (RIT) funds are a major source of revenue for several natural resource agencies and programs, including the Renewable Resource Grant and Loan Program (RRGL) and the Reclamation and Development Grant Program (RDGP). The RIT receives income from two sources: 1) the resource indemnity and ground water assessment tax (RIGWAT); and 2) an allocation of oil and gas production tax revenues. The Board of Investments invests funds deposited in the RIT and some of the investment earnings are used to fund the RRGL and RDGP. For more detailed information on the allocation and expenditure of other RIT proceeds and RIT interest earnings, see the Department of Natural Resources and Conservation (DNRC) summary in Section C of the LFD Budget Analysis, Volume 3, page C-123.

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

In accordance with 15-38-202, MCA, a total of \$2.0 million in RIT interest earnings is allocated to the RRGL account each year for the purpose of making grants. Created by the 1993 legislature, the RRGL combines the former Renewable Resource Development Program, established in 1975, and the Water Development Program, established in 1981. As outlined under Title 85, Chapter 1, part 6, MCA, the purpose of the RRGL is to fund projects that "enhance Montana's renewable resources through projects that measurably conserve, develop, manage, or preserve resources." The \$2.0 million statutorily allocated each year to the RRGL is deposited into the renewable resource grant and loan program state special revenue account.

DNRC administers the RRGL, which involves a biennial application process. DNRC and a technical review team initially evaluate each application for economic and technical feasibility, as well as to ensure that proposed projects are located in Montana. Qualifying applications are then examined according to six criteria:

- Financial feasibility
- Adverse environmental impact
- Technical merit
- Public benefit
- Need
- Urgency

DNRC submits a list of funding recommendations to the Governor, who reviews the list and submits recommendations to the legislature. Funding for projects comes in the form of grants and/or loans made to both public and private entities. The legislature has final approval for the awarding of RRGL grants and loans, which will be introduced in HB 6 and HB 8, respectively.

Eligible applicants include:

- A department, agency, board, commission, or other division of state government
- A city, county, or other political subdivision or local government body of the state
- A tribal government

Executive Recommendation

Grants

Figure 8 shows a priority listing of the RRGL grants recommended by the executive for the 2005 biennium. DNRC received a total of 73 applications. HB 6 will include a list of 62 projects estimated to cost \$6.0 million. The \$4.0 million statutorily allocated to fund grants will be limited in the 2005 biennium to \$3.75 million, which translates into the 38 highest priority projects. Of the remaining \$225,000, \$125,000 will fund the DNRC emergency grant program and \$100,000 will be used for project planning grants awarded by the department over the biennium.

Figure 8
Renewable Resource Grant and Loan Program
2005 Biennium

Rank	Sponsor/Project	Request	Executive Recommendation	Cumulative Total
1	Scobey, City of Wastewater System Improvements	\$100,000	\$100,000	\$100,000
2	Dawson County Yellowstone River Floodplain Management	100,000	100,000	200,000
3	Flathead Basin Commission Ashley Creek Headwater Restoration	99,700	99,700	299,700
4	Missoula, City of Rattlesnake Neighborhood Sewer Collection System	100,000	100,000	399,700
5	North Powell Conservation District Blackfoot River Habitat, Water Quality, and Restoration	62,600	62,600	462,300
6	Montana Department of Agriculture Monitoring Well Network for Assessment of Ag Chem	100,000	100,000	562,300
7	Paradise Valley Irrigation District Hillside Lateral	100,000	100,000	662,300
8	Ramsay County Water and Sewer District Water System Improvements	100,000	100,000	762,300
9	Missoula County Mullen Road Corridor Sewer Project - Phase I	100,000	100,000	862,300
10	Park County North Park County Water Resources Protection/Mgmt	100,000	100,000	962,300
11	Sheaver's Creek Water and Sewer District Water System Improvements	100,000	100,000	1,062,300
12	Stanford, Town of Water System Improvements	100,000	100,000	1,162,300
13	Hamilton, City of Water Distribution System	100,000	100,000	1,262,300
14	Park County-Cooke City Water District Water System Improvements	100,000	100,000	1,362,300
15	Milk River Joint Board of Control Saint Mary Siphon Expansion Joint Replacement	100,000	100,000	1,462,300
16	Buffalo Rapids Irrigation Project Refit of Glendive Pumping Plant	100,000	100,000	1,562,300
17	Mill Creek Irrigation District Mill Lake Dam Rehabilitation	100,000	100,000	1,662,300
18	Montana Department of Natural Resources and Conserv Seepage Monitoring Project - DNRC Dams	97,646	97,646	1,759,946
19	Sidney Water Users Irrigation District Increasing Irrigation Efficiency	100,000	100,000	1,859,946
20	Stillwater County Yellowstone River Floodplain Management	100,000	100,000	1,959,946
21	Yellowstone County Yellowstone River Floodplain Management	100,000	100,000	2,059,946
(Continued on next page)				

Figure 8 (continued)
Renewable Resource Grant and Loan Program
2003 Biennium

Rank	Sponsor/Project	Request	Executive Recommendation	Cumulative Total
22	Worden-Ballantine Yellowstone Cnty Water/Sewer Dist Water System Improvements	\$100,000	\$100,000	\$2,159,946
23	Ryegate, Town of Water System Improvements	100,000	100,000	2,259,946
24	Malta Irrigation District Replacement and Modification of Check Structures	100,000	100,000	2,359,946
25	Judith Basin County Geyser Water System Improvements	100,000	100,000	2,459,946
26	Blackfeet Tribe Oki Mamii (Hello Fish)	23,581	23,581	2,483,527
27	Sheridan, Town of Water System Improvements	100,000	100,000	2,583,527
28	Pablo-Lake County Water and Sewer District Wastewater Treatment System	100,000	100,000	2,683,527
29	Fort Belknap Irrigation District Sugar Factory Lateral	100,000	100,000	2,783,527
30	Montana Department of Natural Resources and Conserv North Fork of the Smith River Dam Rehabilitation	100,000	100,000	2,883,527
31	Conrad, City of Raw Water Intake and Pump Station Improvements	100,000	100,000	2,983,527
32	Lewis and Clark County Water Quality Protection Dstr Groundwater Sustainability in North Hills Area, Helena	100,000	100,000	3,083,527
33	Power Teton County Water and Sewer District Water System Improvements	100,000	100,000	3,183,527
34	Phillips County Green Meadows Water and Sewer Dst Water System Improvements	100,000	100,000	3,283,527
35	Chinook Division Irrigation Joint Board of Control Fresno Dam - Gate Leaf Seals	100,000	100,000	3,383,527
36	Upper/Lower River Road Water and Sewer District Water System Improvements	100,000	100,000	3,483,527
37	Gallatin Local Water Quality District Dedicated Monitoring Well Network for Gallatin Valley	99,883	99,883	3,583,410
38	Troy, City of Water System Improvements	100,000	100,000	3,683,410
39	Montana Department of Corrections Rehabilitation of Prison Ranch Dam	100,000	100,000	3,783,410
40	Fort Shaw Irrigation District Water Quality and Quantity Improvements - Phase III	89,122	89,122	3,872,532
41	Butte-Silver Bow Local Government Basin Creek Dams #1 & #2 Site Improvements	100,000	100,000	3,972,532
42	Hill County Beaver Creek Dam Outlet Works Repair	100,000	100,000	4,072,532
(Continued on next page)				

Figure 8 (continued)
Renewable Resource Grant and Loan Program
2003 Biennium

Rank	Sponsor/Project	Request	Executive Recommendation	Cumulative Total
43	Melstone, Town of Water Conservation Project	\$99,929	\$99,929	\$4,172,461
44	Glasgow Irrigation District Vandalia Diversion Dam Rehabilitation - Phase III	100,000	100,000	4,272,461
45	Richland County Conservation District Irrigation Groundwater Under Lower Yellowstone Valley	85,212	85,212	4,357,673
46	Milk River Joint Board of Control Nelson Reservoir Pumping Design/Construction-Fin Rprt	100,000	100,000	4,457,673
47	Pablo-Lake County Water and Sewer District Water Distribution System	100,000	100,000	4,557,673
48	Cut Bank, City of Water System Improvements	100,000	100,000	4,657,673
49	Pleasant View Homesites County Water and Sewer Dst Water System Improvements	100,000	100,000	4,757,673
50	Gardiner-Park County Water District Water System Improvements	100,000	100,000	4,857,673
51	Huntley Project Irrigation District Anita Reservoir Dam Safety Repairs/Sediment Removal	100,000	100,000	4,957,673
52	Whitefish, City of Water Distribution Improvements	100,000	100,000	5,057,673
53	Black Eagle Water District Wastewater System Improvements	50,000	50,000	5,107,673
54	Montana Bureau of Mines & Geology Irrigation Technical Assistance Project	99,925	99,925	5,207,598
55	Geraldine, Town of Water System Improvements - Phase II	100,000	100,000	5,307,598
56	Harlem Irrigation District Lower Harlem Irrigation Canal Improvements - Phase I	100,000	100,000	5,407,598
57	Meadowlark Water and Sewer District Wastewater Collection System	100,000	100,000	5,507,598
58	Columbia Falls, City of 4th Avenue West Water and Sewer Upgrade	100,000	100,000	5,607,598
59	Columbus, Town of Stormwater Improvement	100,000	100,000	5,707,598
60	Libby, City of Johnston Acres Water System Improvements	100,000	100,000	5,807,598
61	Three Forks, City of Water System Improvements	100,000	100,000	5,907,598
62	Lake County Solid Waste District Solid Waste Transfer Station	100,000	100,000	6,007,598
Total Recommended for 2005 Biennium:			<u>\$6,007,598</u>	

Loans

As presented in HB 8 (as drafted), the Executive Budget recommendations for loans under the Renewable Resource Grant and Loan Program total \$8.1 million for projects in which loans are requested and approved. It also includes \$2.9 million that would be made available as loans to finance projects that requested grants, but for which sufficient funds are not available. The new loan request is increased by \$100,000 to insure that no grantee/borrower will lose funding. Another \$1.1 million would be used to establish a reserve for bonds. This totals \$12.2 million. A complete listing of the projects is shown in Figure 9.

HB 8 would authorize the Board of Examiners to issue coal severance tax bonds in the amount of \$12.2 million, proceeds of which are to be used for this purpose, and are appropriated by HB 8 to the Department of Natural Resources for financing the projects identified in the bill. Loan repayments from the loans financed with coal severance tax bonds are used to pay the debt service. Because the loans authorized in HB 8 are sometimes offered at reduced rates, coal severance tax revenues subsidize these reduced rates. Consequently, less principal is invested in the Treasure State Endowment Fund, the Treasure State Endowment Regional Water System Fund, and, under current law, the Permanent Coal Trust Fund. As a result, the trust earns lower interest. Under present law, this will affect the amount of interest that is deposited into the general fund through the permanent coal trust.

Because these are general obligation bonds, they constitute a state debt that requires a two-thirds vote of the members of each house. Furthermore, because the money from the coal severance tax bond fund is pledged for debt service payments on the bonds, HB 8 also requires a three-fourths vote of the members of each house, as required by the Montana constitution.

The department (DNRC) is seeking authorization to extend the lending ability of the program. If approved by the legislature, SB 5 will increase DNRC bonding authority to \$30.0 million. Currently, the department may not have outstanding renewable resource bonds of more than \$20.0 million. This action will provide the department with a greater ability to fund natural resource projects including groundwater studies, irrigation rehabilitation, water and soil conservation, municipal drinking water improvements, public wastewater, and forest enhancement.

Figure 9
Renewable Resource Grant and Loan Program Loans
2005 Biennium

Sponsor/Project	Loan Request	Cumulative Total
<u>Section 1, Group A Projects*</u>		
Buffalo Rapids		
Refit of Glendive Pumping Plant	\$1,315,000	\$1,315,000
Mill Creek Irrigation District		
Mill Lake Dam Rehabilitation	572,000	1,887,000
Montana DNRC		
North Fork of the Smith River Dam Rehabilitation	557,000	2,444,000
Hill County		
Beaver Creek Dam Outlet Works Repair	500,000	2,944,000
<u>Section 2, Group A Projects**</u>		
Hill County		
Water Treatment Plant	400,000	3,344,000
Lockwood Water and Sewer District		
Wastewater Collection and Treatment Works	3,300,000	6,644,000
<u>Section 2, Group B Projects</u>		
Department of Natural Resources and Conservation		
Nevada Creek Dam Rehabilitation	494,041	7,138,041
<u>Section 2, Group C Projects</u>		
Lower Willow Creek Drainage District		
Lower Willow Creek Dam Rehabilitation	1,350,000	8,488,041
Malta Irrigation District		
Repair and Modification of Dodson Diversion Dam	2,274,950	10,762,991
<u>Section 2, Group D Projects</u>		
Canyon Creek Irrigation District		
Canyon Lake Dam and Wyant Lake Dam	300,000	11,062,991

Total Request for New Loans: \$11,062,991

* Section 1 projects meet the provisions of 17-5-702, MCA

** Section 2 projects may not complete the requirements needed to obtain the loan funds prior to June 30, 2003.

NOTE: Projects are grouped by differences in interest rates.

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

Program Description

Resource indemnity trust interest earnings in the amount of \$2.4 million are to be deposited into the reclamation and development grant account each biennium for the purpose of making grants (15-38-202, MCA). The Reclamation and Development Grant Program is designed to fund projects that:

“..indemnify the people of the state for the effects of mineral development on public resources and that meet other crucial state needs serving the public interest and the total environment of the citizens of Montana” (90-2-1102, MCA).”

As provided in statute, projects approved under the RDGP are intended to:

- Repair, reclaim, and mitigate environmental damage to public resources from non-renewable resource extraction
- Develop and ensure the quality of public resources for the benefit of all Montana citizens

The Reclamation and Development Grant Program is also administered by DNRC, which solicits, evaluates, and ranks each application on a biennial basis. Those eligible to apply for grants include state and local governments, political subdivisions, and tribal governments. Applications are evaluated according to specific criteria related to:

- Public benefit
- Need and urgency
- Appropriateness of technical design
- Financial feasibility
- Project management/organization

No grant may exceed \$300,000. DNRC forwards a list of recommendations to the executive, who reviews the list and submits funding recommendations to the legislature. The \$2.4 million statutorily allocated to the RDGP is deposited into the reclamation and development grants state special revenue account.

During the special session of August 2002, the legislature reduced the revenue for RDGP grants by 20.0 percent starting in fiscal 2003 and continuing through fiscal 2005. The reduction lowered the amount of statutorily allocated grant funds from \$1.5 million to \$1.2 million each year. The allocation will return to \$1.5 million a year in the 2007 biennium.

Executive Recommendation

Figure 10 shows a priority listing of the RDGP grants recommended by the executive for the 2005 biennium. DNRC received a total of 26 applications totaling \$7.3 million. HB 7 will include a list of 14 projects with an estimated cost of \$3.0 million. In accordance with 90-2-1113, MCA, priority consideration is given to the Montana Board of Oil and Gas Conservation for \$600,000 in grants (projects ranked 1 and 2) and abandoned mine reclamation projects for \$800,000 in grants (projects ranked 4, 8, and 10) over the biennium. This results in a remainder of approximately \$1.0 million for other projects. Project grants are matched by about \$8.0 million in non-RDGP funds from a variety of state, federal, private, and local sources.

Figure 10
Reclamation and Development Grants
2005 Biennium

Rank	Sponsor/Title	Amount Requested	Recommended Amount	Cumulative Amount
1	Board of Oil and Gas Conservation			
	2003 Northern District Plug & Abandonment	\$300,000	\$300,000	\$300,000
2	Board of Oil and Gas Conservation			
	2003 Southern District Plug & Abandonment	300,000	300,000	600,000
3	Department of Natural Resources and Conservation			
	Planning Grants	150,000	150,000	750,000
4	Department of Environmental Quality			
	Washington Mine & Millsite Reclamation	300,000	300,000	1,050,000
5	Big Horn Conservation District			
	State-Line Groundwater Monitoring Network-Tongue & Powder River Watersheds	300,000	300,000	1,350,000
6	Sunburst, Town of			
	Sunburst Water Supply Renovation	185,249	185,249	1,535,249
7	Board of Oil and Gas Conservation			
	Fate & Transport of Impounded Coal Bed Methane Water	200,000	200,000	1,735,249
8	Department of Environmental Quality			
	Drumlummon Tailings, Goldsil - Argo Millsite & Mine Waste Reclamation	300,000	300,000	2,035,249
9	Toole County			
	2003 Plugging & Abandonment Aid to Small Independent Operators	300,000	240,000	2,275,249
10	Department of Environmental Quality			
	Blue Bird Mine Reclamation	300,000	200,000	2,475,249
11	Sheridan County Conservation District			
	Protecting Natural Resources by Reclaiming Oilfield Brine Contaminated Soils	299,950	150,000	2,625,249
12	Montana Governor's Office			
	Growing Carbon "Applying Market-Based Conservation Through Carbon Sequestration"	300,000	150,000	2,775,249
13	Fergus County Conservation District			
	Central Montana Aquifer	299,500	150,000	2,925,249
14	Judith Basin Conservation District			
	Judith Basin Aquifer Restoration & Coconservation	300,000	70,000	2,995,249
15	Butte-Silver Bow Local Government			
	Excelsior Reclamation Project	129,497	-	2,995,249
16	Butte-Silver Bow Local Government			
	Butte Native Plant Propagation Project	167,337	-	2,995,249
17	Lewis And Clark County			
	Cave Gulch Watershed Restoration	300,000	-	2,995,249
18	Montana Department of Environmental Quality			
	Former Equity Co-Op Bulk Plant	300,000	-	2,995,249
19	Montana Department of Environmental Quality			
	Broadway/Victoria Mine Reclamation	300,000	-	2,995,249
20	Montana Department of Environmental Quality			
	Montana Tire Recyclers Cleanup	\$300,000	\$0	\$2,995,249
21	Montana Department of Environmental Quality			
	Kendall - Hilger Area Barnes-King Gulch Tailings Removal	300,000	-	2,995,249
22	Montana Department of Environmental Quality			
	Browns Gulch Creek Restoration	300,000	-	2,995,249
23	Powell County			
	CMC Roundhouse - Site Cleanup	276,450	-	2,995,249
24	Powell County			
	Kimball Mine Complex Reclamation	300,000	-	2,995,249
25	University of Montana			
	Recovery of Metals and Remediation of Hazardous Mine Wastes	300,000	-	2,995,249
26	Whitefish, City of			
	Reclamation of Pre-1971 Opencut Gravel Pit	300,000	-	2,995,249
Total Projects Recommended for 2005 Biennium:			\$2,995,249	

CULTURAL AND AESTHETICS GRANT PROGRAM

CULTURAL AND AESTHETIC GRANT PROGRAM

Program Description

The Cultural and Aesthetic Grant Program, administered by the Montana Arts Council (MAC), is funded by investment earnings from a statutory trust, which receives coal severance tax revenues. By statute, the interest from the cultural trust is to be appropriated for protection of works of art in the State Capitol and other cultural and aesthetic (C&A) projects, 15-35-108, MCA. Legislation passed by the Fifty-fifth Legislature resulted in a number of changes to the amount and use of the revenue the C&A project account receives. A discussion of these changes is provided below under "Funding."

Grant applications for cultural and aesthetic projects are submitted to the MAC on a biennial basis. Eligible applicants include the state of Montana and regional, county, city, town, or Indian tribal governments. A 16-member Cultural and Aesthetic Projects Advisory Committee, with eight members appointed by the Montana Arts Council and eight appointed by the Montana Historical Society, reviews each application. The committee prioritizes the requests and makes funding recommendations to the legislature as part of the Executive Budget. All grants require legislative approval in accordance with Title 22, Chapter 2, part 3, MCA.

Figure 11 provides a historic perspective of the Cultural and Aesthetic Grant Program. In the table, funding of the projects is from the C&A account unless otherwise noted.

Actual expenditures for the 1995 biennium were considerably lower than the amount appropriated due to revenue shortfalls. The decline in interest income was the reason for the large decrease in appropriations that occurred between the 1995 and 1997 biennia.

Again, due to revenue shortfalls during the 2003 biennium, actual expenditures are expected to be less than appropriated expenditures. During fiscal 2002, the MAC offered a reduction of \$25,000 in funding to bolster the general fund. Further cuts were made to the program in the special session of August 2002. The reductions are estimated to reduce the program grants by approximately 4.4 percent.

Executive Recommendation

The Governor recommendation for C&A grants will be introduced in HB 9. The first HB 9 priority recommended for funding is a \$30,000 appropriation to the Montana Historical Society for the care and conservation of capitol complex artwork, in accordance with 2-17-805, MCA. The second priority is for 81 C&A grant awards totaling \$723,827. These recommended awards are listed in Figure 12 in priority order within four categories, which include Special Projects less than \$4,500, Special Projects greater than \$4,500, Operational Support Projects, and Capital Expenditure Projects. During the 2005 biennium there are no projects recommended in the fifth, "Challenge Grant", category. The Executive Budget also includes a recommendation for \$311,323 in C&A funds to be appropriated in HB 2 to fund Montana Art Council administrative costs and the costs of the Folklife program. Total executive recommendations, therefore, are \$1.1 million.

Figure 11
History of Cultural and Aesthetic Project Funding

Biennium	Funds Appropriated	Funds Expended	Number of Projects
1979	\$50,000	\$50,000	1
1981	140,000	140,000	3
1983	641,680	602,042	15
1985	823,479	810,704	39
1987	1,476,511	1,414,114	63
1989	1,211,817	1,099,290	53
1991	1,298,788	1,184,661	65
1993	1,551,323	1,531,239	88
1995	1,706,735	1,267,952	93
1997	857,926	852,003	77
1999	1,489,453	1,416,787	79
2001	1,234,939 *	1,163,905	76
2003	1,209,375 **	1,209,375 Est.	74
2005	1,074,150 ***	N/A	81

* Includes a \$600,000 general fund appropriation.

** Includes \$401,425 in general fund and \$198,575 in lodging facility tax appropriation

*** Represents the executive request and also includes \$499,150 general fund.

Figure 12
Cultural and Aesthetic Grant Program
Grant Recommendations
2005 Biennium

Rank	Organization	Request	Grant Recommendation	Cumulative Total
Special Projects <\$4,500				
1	Montana Storytelling Roundup	\$4,500	\$4,500	\$4,500
2	Miles City Speakers Bureau	4,500	4,500	9,000
3	Friends of Chief Plenty Coups Association	4,500	4,500	13,500
4	Council for the Arts, Lincoln	2,500	2,500	16,000
5	Sunburst Community Service Foundation	4,500	2,700	18,700
6	International Choral Festival	4,300	4,000	22,700
7	Montana Wool Growers Association	4,350	3,700	26,400
8	Crow Tribe	4,500	2,250	28,650
9	Hobson Community Library	4,500	2,500	31,150
10	homeWORD	4,500	-	31,150
11	Heron Players	3,000	-	31,150
12	Historic Montana Publishing	4,500	-	31,150
13	City of Townsend	4,400	-	31,150
Special Projects >\$4,500				
1	Montana Committee for the Humanities	\$61,920	\$27,000	\$58,150
2	KUFM-TV, Montana PBS	25,000	18,000	76,150
3	Whitefish Theatre Company	20,000	12,000	88,150
4	Montana Performing Arts Consortium	54,000	20,000	108,150
5	Rattlesnake Productions	30,000	15,000	123,150
6	Montana Historical Society	24,915	12,000	135,150
7	Montana Preservation Alliance	41,100	15,000	150,150
8	MonDak Historical and Art Society	4,500	4,500	154,650
9	Grandstreet Theatre	30,000	10,000	164,650
10	Art Mobile of Montana	19,475	12,500	177,150
11	Glacier Orchestra & Chorale	29,500	10,000	187,150
12	Bozeman Symphony	34,000	10,000	197,150
13	Montana Alliance for Arts Education	21,000	10,000	207,150
14	V I A S, Inc	25,000	10,000	217,150
15	Hockaday Museum of Art	40,000	13,000	230,150
16	Rimrock Opera	26,000	10,000	240,150
17	Missoula Symphony Association	14,000	7,000	247,150
18	Paris Gibson Square	15,908	8,000	255,150
19	Going-To-The-Sun Institute	22,500	8,000	263,150
20	Yellowstone Ballet Company	7,000	3,500	266,650
21	Feathered Pipe Foundation	13,016	2,000	268,650
22	Huntley Project Museum of Irrigated Agriculture	32,815	4,000	272,650
23	Montana Mandolin Society	30,000	1,000	273,650
24	Asylum Pictures	50,000	-	273,650
25	Sandpiper Gallery	38,350	-	273,650
26	Missoula Cultural Council	32,000	-	273,650
27	Federation of Fly Fishers	20,000	-	273,650
28	Mainstreet Uptown Butte, Inc.	2,500	-	273,650

Figure 12 (continued)
Cultural and Aesthetic Grant Program
Grant Recommendations
2005 Biennium

Rank	Organization	Request	Grant Recommendation	Cumulative Total
Operational Support				
1	Schoolhouse History and Art Center	\$25,000	\$16,000	\$289,650
2	Custer County Art Center	32,000	20,000	309,650
3	Writer's Voice (Billings YMCA)	32,000	20,000	329,650
4	Great Falls Symphony Association Inc.	24,000	18,000	347,650
5	MAGDA	30,000	15,000	362,650
6	Holter Museum of Art	50,000	16,000	378,650
7	Museum of the Rockies	60,000	15,000	393,650
8	MT Agricultural Center & Museum	24,000	12,000	405,650
9	Western Heritage Center	40,000	15,000	420,650
10	Billings Symphony Society	45,000	15,000	435,650
11	Montana Repertory Theatre	70,000	15,000	450,650
12	Shakespeare in the Parks	35,000	15,000	465,650
13	VSA arts of Montana	12,000	12,000	477,650
14	Alberta Bair Theater	40,000	15,000	492,650
15	Butte Center for the Performing Arts	30,000	15,000	507,650
16	MCT, Inc.	50,000	15,000	522,650
17	Intermountain Opera	33,450	12,000	534,650
18	Montana Assoc of Symphony Orchestras	20,000	8,000	542,650
19	Garnet Preservation Association	22,000	12,000	554,650
20	Yellowstone Art Museum	83,000	16,000	570,650
21	Rocky Mountain Ballet Theater	13,300	6,000	576,650
22	Montana Ballet Company	10,000	5,000	581,650
23	Myrna Loy Center	40,000	16,000	597,650
24	Butte Symphony Association	30,500	15,000	612,650
25	Vigilante Theatre Company	22,000	11,000	623,650
26	District 7 HRDC Growth Thru Art	23,500	10,000	633,650
27	Museums Association of Montana	37,070	12,000	645,650
28	Emerson Cultural Center	61,790	10,000	655,650
29	Carbon County Historical Society	20,000	8,000	663,650
30	Montana Arts	30,000	10,000	673,650
31	Mo-Trans Dance Company	12,850	5,000	678,650
32	Young Audiences of Western Montana	12,000	8,000	686,650
33	Gallatin County Historical Society	15,000	7,500	694,150
34	Northwest Montana Historical Society	15,098	7,500	701,650
35	Montana Dance Arts Association	7,500	3,000	704,650
36	Billings Cultural Partners	10,000	2,500	707,150
37	Big Horn Arts and Crafts Association	20,000	5,000	712,150
38	Carbon County Arts Guild	20,000	6,000	718,150
39	Montana Chorale	11,600	5,000	723,150
40	Artslink, College of Arts & Architecture, MSU	10,000	-	723,150
41	Miles City Preservation Commission	10,100	-	723,150
42	Dept of Media & Theatre Arts	10,000	-	723,150
43	Daly Mansion	43,500	-	723,150
44	Montana Science Institute	36,000	-	723,150
45	Garden City Ballet of Montana	20,000	-	723,150

Figure 12 (continued)
Cultural and Aesthetic Grant Program
Grant Recommendations
2005 Biennium

Rank	Organization	Request	Grant Recommendation	Cumulative Total
Capital Expenditures				
1	Archie Bray Foundation	\$50,000	\$16,500	\$739,650
2	Great Falls Civic Center	25,000	10,000	749,650
3	Livingston Depot Foundation	20,000	10,000	759,650
4	Lewistown Art Center	10,000	2,500	762,150
5	Art Museum of Missoula	100,000	15,000	777,150
6	Billings Preservation Society	19,708	10,000	787,150
7	Moosehorn Club	2,000	2,000	789,150
8	North Missoula Community Development	10,000	5,000	794,150
9	Tobacco Valley Improvement Assoc. Board of Art	47,250	5,000	799,150
10	Cascade Co Historical Society	25,000	5,000	804,150
11	Philipsburg School District #1	25,000	-	804,150
12	City of Helena	20,000	-	804,150
Total Requested/Recommended		<u>\$2,472,265</u>	<u>\$804,150</u>	

Funding

Prior to the 1997 legislative session, the C&A Grant Program was funded entirely with interest earnings from the cultural trust. However, the 1997 legislature appropriated \$3.9 million, approximately half of the trust corpus to help fund the purchase of Virginia City and Nevada City properties.

In order to compensate for the lost interest earnings that would result from the reduced corpus, the 1997 legislature allocated 0.87 percent of coal severance tax revenue to the C&A project account for the 1999 biennium only. Of this amount, 0.63 percent was previously allocated to the cultural trust. Consequently, the trust was capped for fiscal years 1998 and 1999. Beginning in fiscal year 2000, 15-35-108, MCA, provides that 0.63 percent of coal severance tax income will again flow into the trust and not into the C&A project account. The remaining 0.24 percent of coal severance taxes allocated to the C&A project account for the 1999 biennium, was previously part of the flow into the general fund. Beginning in fiscal year 2000, this amount was once again statutorily allocated to the general fund. Thus, for the 2005 biennium, the only funding for the C&A program provided for in statute is the interest income from the cultural trust.

In fiscal 2002 two actions were taken to increase revenues to the general fund. First, the C&A project grants were reduced by \$25,000. Next, the distribution from the coal severance tax was diverted out of the Cultural Trust and

into the general fund. The elimination of the flow caused a reduction in interest available for fiscal 2003 of approximately \$6,000. Additionally, during the special session of August 2002, general fund support of \$198,575 in the fiscal 2003 was replaced with lodging facility use tax revenue. The aggregate effect of all these actions is an anticipated shortfall in revenues to support the C&A grant program. Should this happen, all grants will be reduced by approximately 4.0 percent.

Based on the HJR 2 assumptions, interest earnings on the cultural trust will total \$659,000 for the 2005 biennium. As mentioned above, the executive budget includes approximately \$341,323 for administrative expenses and the Folklife program and grant funding proposals of \$723,827. Figure 13 shows the projected fund balance for the 2003 biennium based on the projected revenues and proposed expenditures.

Figure 13
Cultural & Aesthetic Grant Program
Fund Balance Projection, 2005 Biennium

Estimated Beginning Fund Balance	\$0	
Revenue Projections *		
Fiscal 2004 Interest	315,000	
Fiscal 2005 Interest	<u>317,000</u>	
Total Funds Available		632,000
Proposed Expenditures		
Administration and Folklife	(311,323)	
Capitol Artwork Care and Conservation	(30,000)	
Grants	<u>(732,827)</u>	
Total Expenditures		(1,074,150)
Projected Ending Fund Balance		(442,150)
Executive General Fund Proposal:		
Fiscal 2004	249,575	
Fiscal 2005	<u>249,575</u>	
Total General Fund:		499,150
Projected Ending Fund Balance if General		
Fund Revenue is Appropriated		<u>\$57,000</u>

* Based on HJR 2 revenue estimates adjusted for the proposed elimination of coal severance tax payments into the Cultural Trust during the 2005 biennium.

LFD COMMENT

Under present law, the available interest for the C&A program is estimated in HJR 2 to be \$659,000. The executive proposes to temporarily divert the flow of the coal severance tax away from the corpus of the Cultural Trust and into the general fund through the 2005 biennium. This change will reduce the interest flowing into the C&A grant program by approximately \$27,000 during the 2005 biennium. Figure 13 applies the changes in law proposed by the Governor. The loss of interest reduces the C&A grant program by approximately 11.0 percent from the prior biennium, and the available interest will be less in the future.

LFD ISSUE

The interest earnings available for the C&A grant program in the 2005 biennium are based on the estimates provided in HJR 2. The Executive did not use the HJR 2 estimates for determining the amount of interest that would be available to the program. As shown in Figure 13, the Governor's Budget requests a general fund appropriation to the C&A grant program of \$499,150. If this request is approved by the 2003 legislature, there would be sufficient money to fund the grants listed in Figure 12. The C&A project account is estimated to have a beginning fund balance of \$0 for the 2005 biennium, because revenues in the 2003 biennium are projected to be short of total appropriations. Thus, the MAC will expend all appropriation authority up to the revenue available. Language in HB 9 from the 2001 session provides a "reduction in grant" mechanism that allows the MAC to do this by reducing the individual project appropriations on a pro-rata basis.

**LFD
ISSUE**

Revenue Shortfall - Historically, language contained in HB 9 to address revenue shortfalls has provided for reduction of grants on a pro-rata basis, based on recommendations by the MAC. This methodology differs from the way reduced funding of appropriations is handled by other grant programs, where authorization is given to fully fund projects based on priority status and available funding. The methodology utilized for the C&A grant program may result in all projects being only partially funded, therefore being disruptive to all C&A grant recipients.

During the 1995 biennium, cultural trust interest earnings were significantly lower than what the 1993 legislature estimated. Consequently, the MAC implemented a voluntary across-the-board reduction in grant funding for all C&A grant recipients. Although many recipients were able to comply, in some cases the funds had already been spent or grantees opted not to comply with the request.

Therefore, the legislature may wish to consider the following options:

- Maintain the status quo by including language in HB 9 that allows the MAC to reduce all grants on a pro rata basis
- Include language in HB 9 directing the MAC to actually fund grants on a priority basis as revenues become available, rather than risk the need to reduce all awards and potentially disrupt or jeopardize projects already in progress

LIBBY BOND PROGRAM

Program Description

The Environmental Protection Agency (EPA) announced October 24, 2002, that the asbestos contamination in the Libby area has been officially listed on the National Priority List under the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). In 1983, legislators determined that the existence of hazardous substances and contaminants in the environment and hazardous waste disposal sites posed a significant health hazard through potential and actual contamination of the environment. The 1983 Legislature mandated, in 75-10-601, MCA, cooperation under CERCLA to “provide for the disposal and control of such hazardous substances and contaminants in a safe and environmentally sound manner”.

The Libby Bond Program (LBP) will furnish the mechanism to provide funding for the cleanup efforts in Libby and Troy and will be administered by the Department of Environmental Quality (DEQ). In the absence of a viable potentially responsible party, the state is required under section 104 of CERCLA to provide a 10.0 percent match to remedial action expenditures and to provide for 100.0 percent of any subsequent cost associated with the operations and maintenance of the remedy. The EPA has already spent approximately \$55 million on emergency removal actions to eliminate immediate asbestos threats. The Libby bond program will provide bonded funds for asbestos removal in the yards and homes in both Libby and Troy. Continued remedial action is expected to cost another \$60 to \$65 million in Libby and \$10 to \$15 million in Troy.

Asbestos contamination occurred when workers from Libby and Troy came home with asbestos imbedded in their work clothes. Asbestos was released into the air and transferred to the walls, floors, ceilings, home furnishings, and family members. Vermiculite, used as a source of insulation for walls and attics, worked its way through cracks and light fixtures. Yards were contaminated when vermiculite was brought home for use in residential yards and gardens.

Executive Recommendation

The executive proposes to use \$8 million of existing authority to match federal remedial expenditures on the cleanup in Libby. Because Libby is not the only Montana site on the National Priority List, the DEQ is also requesting an additional \$1 million of the existing authority for contingency purposes, making a total request for \$9 million in project authority. The funds will be spent incrementally, with the bulk of the expenditure expected to occur during the 2005 biennium. The department will coordinate closely with the EPA to determine cash flow needs and thus to sell bonds in increments and in amounts not to exceed actual needs.

LFD COMMENT

The Governor decided early in fiscal 2002 that the environmental problems evident in the Libby and Troy areas were of sufficient concern to “shoot the silver bullet”. The federal government permits each state one “silver bullet”, which allows a project that is being considered for superfund cleanup to be moved to a priority position on the superfund list. By “shooting the silver bullet”, the Governor made a commitment to prompt cleanup of the area.

Funding

In HB 10, the executive proposes to sell CERCLA general obligation (GO) bonds and deposit the proceeds into the Hazardous Waste CERCLA account authorized under 75-10-623, MCA. Present law limits GO bond authority, as a match to federal CERCLA funding, to \$10 million (75-10-625, MCA). 75-10-622, MCA establishes a separate account for the debt service payment for the GO bonds. Proposed legislation will direct a flow of the Resource Indemnity and Groundwater Assessment (RIGWA) tax into the debt service account in the amount needed to pay the annual debt service payments. Without the proposed legislation, the debt service for the proposed bond will be limited to “not more than one-half of the interest income received for any biennium from the resource indemnity trust fund” (75-10-621, MCA).

**LFD
ISSUE**

The timing of the cleanup operations in Libby and Troy has not been determined. Consequently, the executive has not provided a schedule for bond issuance. Until a schedule for the work and the bond issuance is developed, timing of the debt service is impossible to know. As mentioned above, when the Governor shot the "silver bullet", there was an implied urgency for completion of the cleanup project. The executive proposes to use RIGWA taxes to fund the bond service for the Libby Bond Program. The estimated RIGWA collections, as adopted in the HJR 2 revenue estimates, show revenues of approximately \$1.1 million annually. Estimated debt service on a 20-year, \$9.0 million bond issue with a 5.0 percent rate of interest is approximately \$700,000 annually. Debt service will by necessity become the first priority distribution of the RIGWA tax. The current distributions of the RIGWA tax include: 1) a \$366,000 allocation for deposit in the groundwater assessment account; 2) 50.0 percent of the remainder to the reclamation and development grants account; 3) \$150,000 to the natural resource worker scholarship account; and 4) the remainder to the orphan share account. With a \$700,000 RIGWA debt service allocation, these programs will lose funding, some in entirety. For more information concerning the consequences of funding the Libby Bond Program with RIGWA taxes, refer to the Section C, Department of Natural Resource and Conservation Agency Overview.

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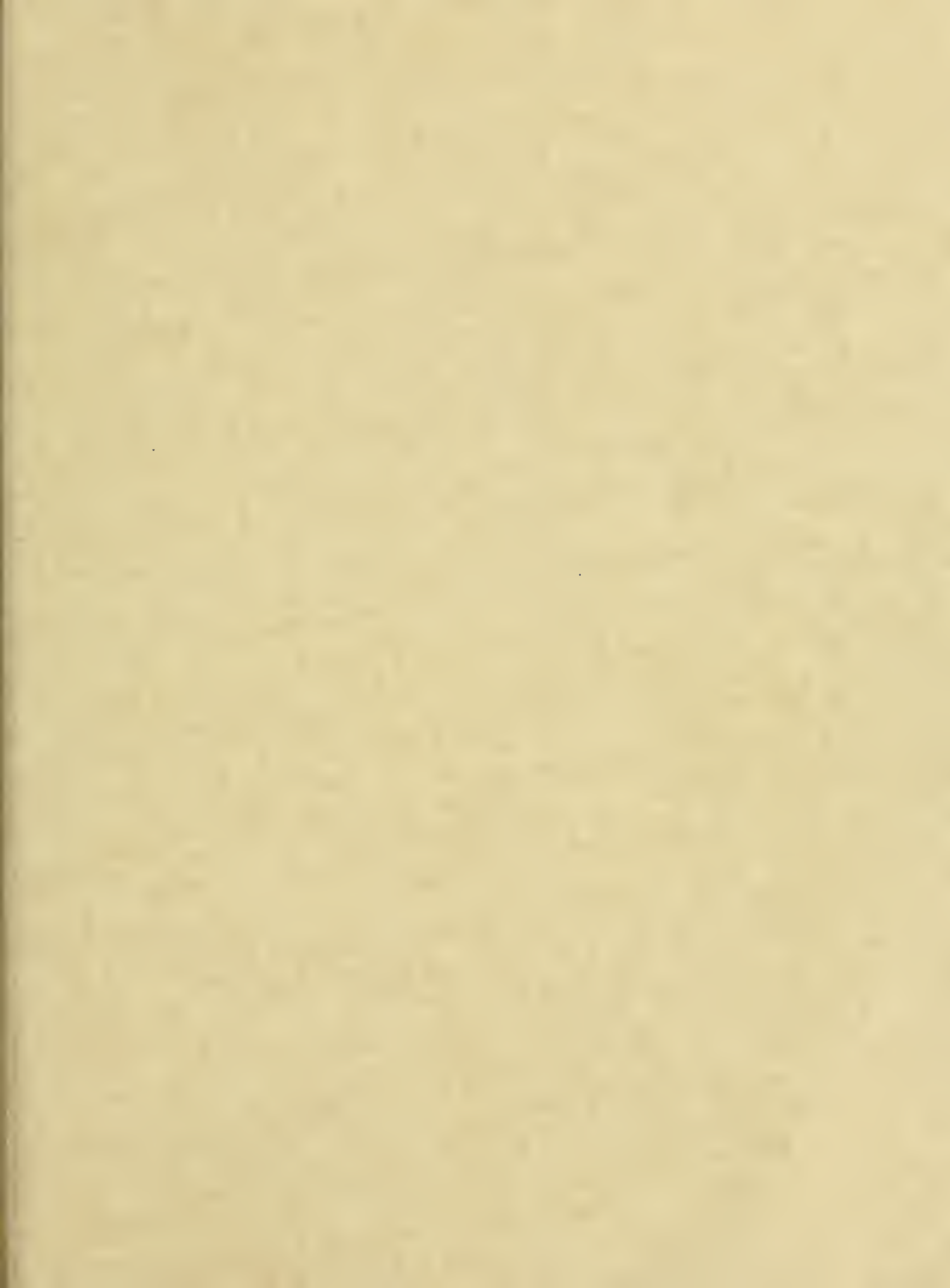
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